UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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In re: : 08-11153
:
LEXINGTON PRECISION CORPORATION, : One Bowling Green
: New York, New York
Debtor. :
: February 23, 2009
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TRANSCRIPT OF TRIAL
BEFORE THE HONORABLE MARTIN GLENN
UNITED STATES BANKRUPTCY JUDGE

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THE COURT: Please be seated. Counsel, please make your appearances.

MR. STROCHAK: Good morning, Your Honor. Adam Strochak, Weil, Gotshal & Manges for the debtors.

THE COURT: Good morning.

MR. STROCHAK: With me in John Lucas and Alex Levine.

THE COURT: Thank you.

MR. TISHLER: Good morning, Your Honor. John Tishler on behalf of Capital Source Finances, the agent and senior lender. With me is Aaron Cahn and Rob Welhoelter. I also have in the courtroom Mark Fadoddy [Ph.], who is our client representative, and Scott Zuber who represents Webster Bank, which is one of our participants.

THE COURT: Good morning.

MR. LEVINE: Good morning, Your Honor. John Levine of Andrews Kurth on behalf of the Committee. I'm joined by my partner Jerry Bracht. We also have Jessie Yeltz [Ph.] of SRR, the Committee's advisor in the courtroom.

THE COURT: Thank you. Anyone else making an appearance? Mr. Strochak?

And let's -- before we begin, I mean, I reviewed the briefs. I reviewed many, but not all the exhibits. We'll go forward with both motions simultaneously in terms of the evidence. If you want to make any preliminary remarks, keep

them brief. I've read everything and I think I understand the issues. Just so everybody knows, I haven't decided anything; but what I've reviewed, I really do think the issues about use of cash collateral and exclusivity are linked together. Mr. Strochak, one of the concerns that I have is that you've submitted a new budget, a 13-week budget with respect to the cash collateral, yet you propose to extend the use of cash collateral to the end of the year. The 13-week period shows a decline in round numbers from about four million dollars in cash to two million dollars in cash, so the Court has concerns given the burn rate that's been evident so far as to how long cash will be available.

Both sides, particularly the prepetition lenders and the debtor, have proposed exhibits that look at in the case of the lenders total enterprise value in the case of the debtor value core assets. Both premised, it appears to me, ongoing concern value, no cash, no going concern.

So I just want you to know -- I'll let you proceed. If you want to do -- if both sides want to do brief openings that's fine or you can just get into the evidence, but I just wanted to sort of based on what I reviewed so far I want to let you know what the Court's concerns are.

Mr. Strochak?

MR. STROCHAK: Thank you, Your Honor. We certainly will be addressing those issues with testimony. Just to give

you a little preview by way of opening what we're going to demonstrate, Your Honor, is that the cash projections are directly related to the consolidation that's going to be going on in the connector seals business and that there are a number of different factors built into the cash projection. That will demonstrate to the Court that it is a reasonable and, in fact, conservative projection, that we're going to demonstrate that the debtor's history of its cash projections through the course of the Chapter 11 cases has been very conservative. They've consistently done better than their cash forecast week after week, month after month through the course of the Chapter 11 case, and that there are conservative factors built into that forecast going forward and that as we get further through this year as the evidence will show in the connector seals consolidation that the cash position will stabilize toward the middle of the year toward the end of the 13-week budget that we've provided and, in fact, we think will pick up in the second half of the year.

In addition, we'll present evidence that the debtors believe that they have sufficient cash to continue operating the business and certainly sufficient time to adjust if things don't go as well as they have forecasted; although, as I've indicated, they feel very confident in their abilities to forecast their cash needs and, in fact, have consistently met those forecasts going forward.

THE COURT: Okay.

MR. STROCHAK: I'm happy to turn the podium over to others for openings, Your Honor. That's really all I particularly wanted to address on the opening because I know Your Honor does have the briefs.

THE COURT: All right.

MR. STROCHAK: We could jump directly into the evidence or --

THE COURT: Mr. Tishler or Mr. Levine or Bracht, do you want to make very brief opening?

MR. TISHLER: Thank you, Your Honor. John Tishler on behalf of the lenders here. With all due respect to Mr. Strochak and the debtors, we believe the proof is going to show an accelerating decline in this company's business in revenues. Over the last four months they have burned cash at a rate of about a million dollars per month and that is a disturbing trend for us.

Back to your point, Your Honor, with only four million dollars of cash in the bank we think it's imprudent to get out too far and not have a plan B in place and that is what our proposal essentially is. We have proposed tightening covenants. We don't have any opposition to a modest extension to use of cash to the end of July, Your Honor, as we've said repeatedly. We also believe, however, that there should be tightened covenants on what the cash usage and burn looks like,

the revenues disbursements and a test against the borrowing base that could show that the company is eating it's A/R and not replenishing it.

We do think a sale of a noncore and nonperforming assets, we think there's about three to five million dollars of that that ought to be carried out again to reduce the senior lender's position here. We do think the retention of a banker to (1) locate potential exit financing source that may not have been uncovered by the debtor's efforts and (2) to explore, not to conduct but just to explore what a sale of a medical device business might bring so that all the constituents can come back to you about 45 days before the end of July and determine at that point what is the best direction this case should be. We've got a plan on the table. The Committee may have a plan on the table depending on the exclusivity termination that you rule on today. We also think there ought to be at least a look at what a sale potentially brings to the business.

So that's our proposal on that.

THE COURT: Thank you, Mr. Tishler.

Mr. Levine?

MR. LEVINE: Good morning, Your Honor. John Levine of Andrew Kurth on behalf of the Committee. It looks like we're going to stick on the cash collateral topic for now so I'll be brief. The values regardless of whether you agree with the debtors which you know the Committee doesn't on valuation

or Cap Source, which does seem to be in the range of reasonableness, the fact is it seems the Cap Source is adequately protected. The conditions that Cap Source is requesting amount to a *de facto* termination of exclusivity. They're looking to do a liquidating plan of reorganization. If you look deep into the conditions by June if no financing is obtained by the debtors, they're likely to want to sell the assets and that's what the conditions say.

If you're going to terminate exclusivity with respect to Cap Source by having a *de facto* liquidating plan, you should also terminate exclusivity with respect to the Committee to give us an opportunity to present their own plan. We'll address the exclusivity issues in connection with the evidence.

THE COURT: Thank you. Mr. Strochak?

MR. STROCHAK: Thank you, Judge. We call Michael Lubin.

THE COURT: Good morning. Raise your right hand.

(Michael Lubin, witness for the debtors, sworn.)

MR. STROCHAK: Please have a seat, Mr. Lubin.

THE WITNESS: Thank you.

THE COURT: Let me just -- I just want to remind everybody it -- I don't know whether you've worked out stipulations as to exhibits, but I'm going to rely on you when you use an exhibit if you intend to offer it, you'd better offer it and I'll rule on -- if there are objections, I'll rule

on it then. I don't want to -- the last time we had an evidentiary hearing I was reminding everybody whether you were offering exhibits it's really your responsibility to decide if you're going to offer it or not.

Go ahead, Mr. Strochak.

MR. STROCHAK: Thank you.

DIRECT EXAMINATION

BY MR. STROCHAK:

Q. Good morning, Mr. Lubin. Let's talk directly with the comments the Court just made. You are the chairman of the debtors, correct?

A. Correct.

Q. And have you done an assessment of whether the company has significant -- sufficient cash to keep -- continue operating through an extension of cash collateral?

A. I have and we believe that the company will have sufficient cash that, in fact, after the end of that 13-week period if the cash gets as low as we have it forecasted, which we don't believe will happen, that it will turn back up for a number of reasons but that we will then be generating cash on a continuing basis.

Q. What are the circumstances that you've evaluated that lead you to those conclusions?

A. Well, the only real substantial cash burn here aside from the expenses in these Chapter 11 cases is that our businesses

that are really tied to the automotive OEM business have been suffering terribly and rather than producing cash, they've been eating cash. As we've all spoken about before we develop a plan that will enable us by we believe probably the end of May to absolutely eliminate the cash burn with respect to our automotive connector seal business and actually turn that into a cash positive business almost regardless of what the volumes are because that business will be moved to our other facilities which are already operating at very high levels of profitability, very high levels of cash flow, and don't require any additional overhead to manage that business. So if the business we retain turns out to be all that business, which is 14 or 15 million dollars, we think that business would generate probably four and a half to five million dollars a year cash flow. That's roughly $400,000.00 a month, whereas right now we're burning about $100,000.00 a month because volumes are so low and because we're running it in a dedicated facility where we just can't get rid of the overhead.

Q. When you say you're running $100,000.00 a month, that's in the connector seals business?

A. In just that business unit because volumes are so low. We have a dedicated facility with a -- with an overhead that we're really required to have to operate the facility and we can't get away from it as long as we run that facility. Our plan is to eliminate that facility, eliminate the overhead, and let

that business be absorbed by our other facilities. We already have essentially all of the overhead costs and all the functions that are required to be performed, so it will simply be incremental profitability. The business we have in that plan generates an average between 33 and 35 percent contribution to overhead so that if we -- as I said, if we retain 15 million dollars' worth of business, 14, it will generate roughly four and a half to five million. If we retain 11 million the way the forecast was built, it will generate between three and a half and four million dollars a year in cash flow and we have a very high degree of confidence in that.

Q. Is there any flex in the cash projection? Are there any particular areas of the cash projection where you believe that there is flex for the debtors to actually perform better than the forecast?

A. Well, I'd say two things: One is that we have from the very beginning of these cases out performed the cash forecast by dramatic numbers. You know, our divisional people put those numbers together. We do not push them to change those numbers. They have been apparently extremely conservative over and over and over again and we believe they've done the same thing here. In addition, we have -- while we believe that we will be able to accomplish a very substantial reduction in the working capital associated with that business during the wind-down period because we've told our customers in order for this to

work for them, which we believe is critical to them, they have to help us by agreeing that they will give us the amount of inventory they need to build in order to safely allow us to move the molds from one plant to another and then they have to authorize us to build that inventory and to ship it to them, bill them, and pay it on a very, very short time frame. And I think -- it sounds like it's a very dramatic thing to ask the customer, but really what you're doing is you're saying you have a very good supplier, one who's critical to you. In order to make sure that that supplier is available to you in the future to supply your needs you need to make a one-time investment of roughly three months' worth of inventory. It will be burned off in three months and then you'll be back to the -- to ordinary course of business. So the short version is, yes, we've actually built the cash forecast in a different set of assumptions and we plan to go forward with it. At the end of May we actually are showing about two and a quarter million dollars of incremental working capital that we don't expect to be there at that time that's eating cash. And we think that we should be able to eliminate a substantial amount of that and convert that to cash during this period so that there will actually be little, if any, cash burn and the entire cash burn will be associated with paying principal payments to Capital Source and paying the administrative expenses as Chapter 11. But even if we can't accomplish that, even if we

end up with a larger amount of working capital in the month of June that's all going to reverse itself because we're going to be done producing. We will have already shipped the bulk of the product. The balance will be shipped in early June and we expect to collect those receivables in the month of June or early July, so we should turn two million dollars positive in that month just by eliminating that working capital.

Q. Let's turn, if we could, to the details of the connector seals consolidation plan. What are the operational elements of that plan, Mr. Lubin?

A. Well, we are going to be producing, as I said, enough inventory to protect the customers while we make the move. Customers need to go through qualification process of these parts in a new location. It seems kind of counter-intuitive but even if you move the molding press, the mold, the process system and the people running the parts they do require qualification because it's in a new location. We want to make sure these things run the same way. We've gone to the customers. I will say it's been awfully difficult to get the customers to come up with their forecast because they're all sort of reeling from what's going on in the automotive business. They don't know what the right numbers are, but they finally --

THE COURT: Who are the principal customers in the connector seals business?

THE WITNESS: Your Honor, the principal customers are Delphi Packard Electric. I think they call it Delphi E right now. Tyco Electronics, FCI which used to be called Framatone [Ph.] Connectors, and Molex [Ph.]. There are a number of other customers. Those are the four biggest that account for the bulk of the dollars. And they've all had serious problems forecasting their own business. We now have forecasts from two of the three -- two of the four. The third one, Tyco, has said we're not going to give you a forecast, but if you work with August volumes that should be safe so we're going to create the forecast. Delphi, I would say, is a little bit slower moving as they are in everything. They're a rather dysfunctional company. But at some point we're going to tell Delphi, you're going to have to make a decision or these molds are going to move and the plant is going to shut down and they will have to make a decision. They have asked us to start the process by putting through supplier change requests on all the parts we have. That's about 230 part numbers, so it's quite a voluminous effort. We're almost done with that, but I don't know if that's a stalling process because they just can't make decisions, but we've gone to them. We now have viable forecasts from three of them and we are going back to --

THE COURT: I thought you said you had viable forecasts from two of them.

THE WITNESS: I'm -- from two of them; the third one

has basically said, we're not going to give you a forecast because for some reason they think that's a commitment to produce a certain number of units. We don't see that, but they've told us that if we use their August purchases of these parts and we build that into a contract that they will be satisfied with that. So we've gone back and done that. We've sent them those volumes and we're waiting for them to come back to us with contracts.

We produced contracts. There is a contract we call a transition letter which basically says, in order to assist us in this transition period they agree that they will commit to allow us to authorize to build the volume of inventory that is on the schedule, which really is their ongoing requirements plus the so-called inventory bank, that they authorize us to make it as quickly as we can according to our requirements, to ship it to them and bill them, and that they will pay us in 20 days.

THE COURT: Who has agreed to pay you in 20 days?

THE WITNESS: Molex and FCI. I believe Tyco has as well. Delphi doesn't have 20-day terms anyway. Delphi is on five-day terms and that may go down.

BY MR. STROCHAK:

Q. Mr. Lubin, let's go back to the qualification process for a second. How long do you anticipate it will take to requalify the machines to make these parts when they're in their new

locations?

A. Well, it's really the molds, not the machines. But we built the original forecast on the assumptions the customers would require six months' worth of inventory because of the so-called PPAP process, production part approval process. It's extremely lengthy if they require a full PAP. The three customers who are moving forward promptly on this have told us that they're intending to abbreviate that process. They do not want that much inventory, do not need that much inventory, and in fact, right now the standard seems to be they want us to qualify four cavities out of the mold. I would say our molds probably have an average of 300 cavities or more and typically in a PPAP you'd be required to build parts and then measure every one of those cavities, which is a rather time-consuming process. They've told us now that they only want to qualify the four corners and the center cavity, which is five out of an average of 100. We think it's going to abbreviate that process dramatically. It's just practical. And, of course, it reflects the fact that they've been doing this with their own businesses. They've been consolidating their footprint. They've been moving their business into smaller numbers of facilities in order to enhance their profitability or eliminate their losses and they are, you know, very attuned to what we're doing. I think that they're seeing lots of this going on in the industry because very, very many automotive suppliers are

in the same kind of position that our connector seals business is right now where they just have to find another way to reduce their costs in order to be able to survive. In fact, I think they view us as being in a better position than most of their suppliers because most of their suppliers in our kind of business are running one plant, the plant that's heavily automotive oriented. If automotive shuts down they could be producing 25 to 30 percent of capacity in their plant. We had two plants. They're running very efficiently right now making very good cash flows and we have a place to move that business where it just becomes plus business. It's all just incremental sales that produce incremental profit.

Q. You mentioned the change in thinking from a six-month requalification process to a shorter requalification process. Did that have any effect on the company's projections of cash flow?

A. Yeah. There were several things that were accelerated as a result. We built the fore -- what we call the financial forecast. It was delivered in mid-January on the assumption that was the best we had at that time, that they would want six months' worth of inventory, and that we'd be running --

Q. Let me stop you there, Mr. Lubin. Let's just work with that for one second. If you could pull out the debtor's exhibit binder. It should be one of the smaller binders.

A. I think I have it.

Q. You should see it. If you open to the table of contents it should say debtors' witness and exhibit list.
A. Got it.
Q. If you could turn to tabs 3, 4 and 5.
MR. STROCHAK: Your Honor, I assume you have a copy.
THE COURT: I do.
BY MR. STROCHAK:
Q. And, Mr. Lubin, if you could just explain for the Court what Exhibits 3, 4 and 5 are.
A. Well, Exhibit 3 is the monthly P&Ls for last year that include estimates. Those were not yet final in November and December. It's a complete set of financial statements. It's P&L statements, percentage P&Ls, balance sheets, cash flows, and then a look at all of the debt interest and changes in debt. Exhibit 4 is a similar set of numbers that's a forecast for 2009. I believe the same exhibits -- the same statements in that. And then Exhibit 5 is actually our consolidated P&L by month and then it's the individual facility P&L forecast for the month -- for each month.
Q. Broken out by facility?
A. Broken down by facility.
MR. STROCHAK: Thank you. Your Honor, we offer Debtors' Exhibits 3, 4, and 5.
MR. BRACHT: No objection, Your Honor.
THE COURT: There being no objection, collective

Exhibits 3, 4, and 5 are admitted into evidence.

(Debtors' Exhibits 3, 4 and 5 are admitted.)

MR. STROCHAK: Thank you. Okay.

BY MR. STROCHAK:

Q. Mr. Lubin, with that framework now, you were starting to talk about the relationship of the mid-January projections to the cash forecast.

A. Well, the mid-January projections reflected the best information we had at that time, which was that the customers would be looking for an extended PPAP process. They would require six months' worth of inventory. In order to do that instead of assumptions we thought was the safe set of assumptions, we did not know how it would all play out, but we made these assumptions for projection purposes. The assumption was that because the facility is tremendously under utilized right now, we could build the customer requirements, plus the six-month inventory bank in the six-month period -- actually, a five-month period because we assumed we'd be starting in February. And you can see if you look at the fourth page under tab 5 it shows the Warren, Ohio facility, which is the connector seal facility today.

THE COURT: Just give me a second.

THE WITNESS: Yes, sir.

[Pause in the proceedings.]

THE COURT: All right.

THE WITNESS: You can see if you look at that we are building inventory or making sales at a very high rate during this period and then that ceases totally in July. The assumption was we build that inventory, we would bill it, ship it and bill it in the six-month period and then in July we would commence the process of moving all the operations to the new facilities. The customer would not need production from the new facility until January because they would have a six-month inventory in their hands to work off. And then, in effect, we would start building new inventory and making new sales on January 1 the following year.

THE COURT: You're saying your customers have agreed to pay for six months' inventory before they actually need to used it?

THE WITNESS: Well, I would say they have not because they've come back and they've said they're going to do this in a shorter time frame, Your Honor.

THE COURT: They'll do what in a shorter time frame?

THE WITNESS: Your Honor, this was a set of assumptions we made in January before we had customer conversations.

THE COURT: Right.

THE WITNESS: We made the assumption that based upon the typical PPAP process and the number of parts we'd have to qualify that they would want to -- they would need six months'

worth of inventory in order to be able to protect themselves from customer shutdown on their end if we -- until we got the new operations up and running. We've since had detailed conversations with the customers and each one of them has said, we are not going to do this the same way you were thinking about. We're going to accelerate the qualification process. It is after all the same mold, same molding press, same supplier, same process. We should be able to do this in an abbreviated fashion and we're going to do this with a lesser amount of inventory.

The inventories that they're looking at are between six to eight weeks on the bottom and four months on the other end and we've told the customers, your contribution to this process is you have to pay for this inventory now, buy it and pay for it now. That's your protection.

THE COURT: And who said they're willing to pay for it now?

THE WITNESS: Tyco and Mo -- I'm sorry. Molex and FCI have said they're prepared to pay for it. Tyco, we believe, is going to say that. We're going to be sending them contracts within the next couple of days and we believe that this is -- when you look at what all these companies are doing in order to avoid potential problems with their suppliers, what volumes are doing to the automotive supply base, we think this is a very, very modest investment on their part and we think

it's extremely viable. I think they do far more than that all the time. We're not asking them for price increases. We're not asking them for substantial loans. We're saying, you're going to up front now. It becomes three months. It will be gone in three months.

BY MR. STROCHAK:

Q. Mr. Lubin, what are the circumstances in your understanding that are going on in the industry now that lead you to believe that customers are going to be willing to pay for inventory in advance?

A. Well, obviously none of them wants to pay for more inventory than they have to, but I think they're all looking at potential disasters with their suppliers. Their suppliers who are highly automotive OEM oriented are dying. They have tremendous problems. They're running their facilities, if they're running at all, at very, very low levels of utilization and leaves them in a position where their cash flows are extremely negative. So their big issue is they need to guarantee that they have supply from reliable suppliers so they will not have a shutdown on the other end. They won't shut down for GM, Chrysler, Toyota, Honda, any of those people. That's an extremely expensive proposition.

THE COURT: So when you do you believe you'll be able to complete the switch-over from Warren to other facilities?

THE WITNESS: Well, based upon the build we're

talking about now, we believe that we will have contracts in place with all these customers that will cover all of this by the middle of next month, probably earlier. We believe we can build the inventory requirements between now and May. We will already be moving molding presses because we have more molding presses than we need to set them up in new facilities and we're going to begin -- as we complete the build-up of a particular part, we're going to move the mold that's used to make that part to the new facility and begin the qualification process.

But our plan, and we believe it's very viable, is to complete the shutdown of the Warren facility and the entire inventory building by May and to have the new facilities ready to run in full by the end of June.

THE COURT: Go ahead, Mr. Strochak.

BY MR. STROCHAK:

Q. Mr. Lubin, what do you see as the execution risks in the plan for consolidating the connector seals business?

A. Well, I would say we have to assure that we're going to have continuing reasonable levels of productivity and reasonable levels of quality of the parts that are being made in buying the facility. We're dealing with that by providing to the hourly people there a significant incentive. The ability to make 20 percent incrementally on top of their wages, which would also probably include overtime in a situation where they're looking at not great prospects of new jobs or a

difficult time finding new jobs going forward, so I think they're going to be very interested in that. Those incentives are based upon their maintaining a level of quality that's consistent with what we have been producing on a continuing basis and producing at a productivity level that guarantees we're going to be able to make some money while we do this and that's being discussed with the union right now. We have to go through the union. We don't think there'll be any kind of a problem. That's one risk. The other risk is the ability to run these parts in these facilities. What we've done is we've spoken to seven or eight people who we think are critical to those parts being able to be produced effectively at the new facilities.

THE COURT: Where's the new facility?

THE WITNESS: Well, we'd be moving the largest piece of the production to the Rock Hill facility, which is the medical facility. We're actually talking, Your Honor, about moving six people -- six salaried people of whom one is the jointly the general manager of the Rock Hill facility and Vienna facility. And the other people are all going to be replacements for the people who are doing the -- the equivalent job in that facility. We believe we're going to upgrade the facility and also bring knowledge about these particular parts and how they're run. So we'll be adding essentially no incremental people on a salary basis to that plant. That's

going to be the bulk of the dollars. As we see it now, it's going to include Tyco, FCI and Molex and American Izockie [Ph.], who's our fifth largest customer, and a couple of smaller customers.

The bulk of the balance, which is essentially the Delphi business and business we have with Federal Mogul [Ph.] and a few other companies would be moving to the Jasper facility, which is the insulator plant. And then there are just a couple of part numbers that were previously produced in the North Canton facility that would be moved back there and the equipment to --

THE COURT: Moved back where? I'm sorry.

THE WITNESS: To the North Canton, Ohio facility and that would be -- we wouldn't have to move equipment because we still have our -- we've done [ph.] equipment in the same place.

BY MR. STROCHAK:

Q. Mr. Lubin, do you believe it's likely that your customers will seek price concessions in exchange for purchasing, you know, larger than normal inventories up front?

A. We've heard nothing to that effect. We've told the customers that we're going to be holding prices. That seems to be their biggest issue. I think that they're looking at lots of situations now where custom -- suppliers are coming to them and saying, in order to survive I need price increases because the volumes are killing us. So I think they're very happy with

the idea that we're going to be able to do this and turn it into a viable business and be a continuing supplier and hold our prices.

THE COURT: You're going to be building three months' inventory instead of six months' inventory?

THE WITNESS: Right, Your Honor. So what's happening is the whole thing has been accelerated. We're going to be producing less in Vienna. The cash flow from Vienna will be lower. It will happen -- it will be completed a bit earlier and because the customers want us up and running in the new facilities a bit earlier. We're spending the dollars that we need to spend on transition; the movement costs are being spent earlier. We had them built into our forecast in the second half of the year but now the customer said, we want you to start producing in June/July, so we have to spend it before June obviously and that's all built into the numbers.

THE COURT: Well, you have a revised set of forecasts because these forecasts are based on six-month inventory build and the later transition and now you're saying that --

THE WITNESS: We have --

THE COURT: -- that plan has changed.

THE WITNESS: We have not yet completed the financial forecast. Our financials have stretched a bit thin. You can imagine. But the cash forecast reflects this new plan. It reflects the lower build in the short run; it reflects spending

the dollars on the move earlier; and, in addition, it reflects much more conservative assumptions on how we're going to be paid for the inventory and how we're going to ship the inventory, although we believe we're going to --

THE COURT: What do you mean, "more conservative assumptions"?

THE WITNESS: Well, I believe that the cash forecast as of the end of May reflects about a million and a quarter dollars more receivables on the books than were built into this financial forecast because the assumption -- when the controller in that division made the forecast was that we're going to collect it a bit later. We don't intend to let that happen. We intend to do better, but he felt to be conservative he wanted to do that. It reflects that almost $900,000.00 of incremental inventory on the books at the end of that period, but we believe we're going to get that shipped out and billed before the end of June. So we think there's a fair cushion in there because of these working capital assets that are implied to be on the books and are sitting there and if -- using our cash for a period of time, but we don't expect them to be there or we expect them to be lower.

In any case, in the month of June they will be turned into cash.

BY MR. STROCHAK:

Q. Mr. Lubin, turn if you would in the debtors' exhibit book

to Exhibit 1. Is this the cash forecast you referenced?
A. Yes, it is.
MR. STROCHAK: Your Honor, we move Exhibit 1 into evidence.
THE COURT: Hearing no objection, Exhibit 1 is in evidence.
(Debtors' Exhibit 1 is admitted.)
BY MR. STROCHAK:
Q. Mr. Lubin, let me turn to a different topic.
THE COURT: Let me just -- before you go on.
MR. STROCHAK: Sure.
THE COURT: Looking at Exhibit 1 this cash forecast built on the assumption that you're billing out three months of inventory or six months of inventory?
THE WITNESS: Three months, Your Honor.
THE COURT: Okay. Go ahead.
BY MR. STROCHAK:
Q. Mr. Lubin, let's turn to the suggestion that the prepetition lenders have made regarding marketing or sale of some or all of the debtors' businesses. Has the company evaluated the possibility of selling assets?
A. Well, we believe that we have business units that are extremely viable and are attractive sale candidates. Absolutely. We think they could be sold now. They could be sold later. We don't think that they are diminishing in value.

We think that the -- even -- the core assets are holding their own even in the market that's rather lousy.

Q. Just to be perfectly clear, what do you consider the "core assets"?

A. We're talking about the Rock Hill facility which is prim -- which is today the medical business and we're talking about the Jasper, Georgia facility, which is the ignition wire insulator business, and we believe those are extremely attractive businesses. We think they could be sold absolutely. They'd be sold for good value. We don't believe these are the kind of businesses which should be sold in the distress context. You're talking --

THE COURT: Of course, you're going to move the connector seal business into Rock Hill, it's no longer a stand-alone medical facility, right?

THE WITNESS: I would totally agree, Your Honor, but we believe that because of the type of business that we would have moved and the fact that we would have long-term contracts with respect to that business, we think that any prospective buyer would be very interested in having that business incrementally. It's very profitable. It involves proprietary technology that really no one else in the world has to make these kind of parts and it's extremely sophisticated.

BY MR. STROCHAK:

Q. Mr. Lubin, is there any reason not to test the market

value of the insulators in the medical businesses?
A. We don't think you can test the value. We think that you -- in order to effectively market a business you have to go out with a clear intention of selling; if you don't and if it's know that, well, this is just testing the waters, a few things are going to happen: One is that a lot of people will not even bother because why should they, it's just an exercise; number two, if guys do get involved we don't think they're going to give it their best shot because why should they. They should -- in our minds what they're going to do is say, if I can steal it I'll steal it. If I can't we'll worry about it later. I think we're -- we've been in that situation before. I mean, we already looked a bit ridiculous because we had a deal. We were prepared to accept to sell a medical business and we weren't able to go forward with it. People -- when people work on a project, people work on an acquisition, they want to know at the end of the day you're selling it. That's what you're trying to see how rich you are at that time.
Q. The deal you referenced for medical, when did that occur?
A. We had an offer in January of last year and we had to basically walk away from it in late January, early February.
Q. Well --
A. If I -- let me finish. I started to say before, I think these are not the kinds of businesses you want to sell in distress scenario. You know, people refer to things like the

Delphi exhaust business, a 290 million-dollar business that sold for 17 million dollars. I don't know the specifics of that, but I would have to guess it's a 290 million-dollar business probably losing a lot of cash flow probably with a sizable balance sheet. This is a company -- the Rock Hill facility is essentially a five million-dollar balance sheet that has a projectable cash flow of five million dollars plus. You're not looking to get the balance sheet out of that. You're looking to get the maximum value out of the cash flow generation capability of that business and I think that the Chapter 11 context is not the way to do that.

Q. Would a process to either sell the medical business or test the market for it have any implications for the company's ability to continue to grow that business?

A. Well, I'm not going to say customers are going to walk away from the business. I think what we do is unique enough and difficult enough to do that customers are not going to have the option to move to other suppliers with existing business, but we are working the pipeline. We have projects in the pipeline that are very significant and I think that's what's going to really hurt. But people are paying you for your ability to generate profit and your ability to grow that profit by growing sales and I think those pipeline projects are extremely likely to be pulled back because people want to know who's going to own the business, how is it going to be run,

when they're putting in important projects with the supplier.

Q. If in several months the company is not able to realize the benefits of the connector seals consolidation do you believe there would beany obstacles at that point to a sale process for medical business or any other piece of the business?

A. Oh, I would say we would still think that a Chapter 11 context is not the way to sell those kind of businesses, but I don't see there'd be any issue with selling those. If there were a few million dollars of connector seal business in one of those plants it certainly wouldn't detract from the value of the medical business if it had a few million dollars of OEM automotive business making a profit. It can only be an enhancement, but even if it isn't you can always close it down, I suppose, or move it to a -- you can rent a building and move it to another facility if it makes sense. You can get some knock-out bid on the medical business. I don't think you'd be precluded from doing that. I think it would only be a plus to have made this transfer.

Q. Putting aside the core businesses are there any other surplus or extraneous assets that the debtors could sell?

A. Well, we have, I guess, three. One is a building that is under a lease with an option to buy. I think the practicality of selling that business because it's under a lease with an option to buy is not very high. We get paid on the lease. The

lease return is adequate but I don't think it's practical to sell that. You have the machining business in Rochester that frankly has been suffering the same way that the connector seals business has because it has a very, very high concentration of automotive OEM. We've made the same kind of assessment of that business we made with connector seals, but the difference is we have an enormous amount of committed business from customers that should be starting up over this year and next that we think are going to allow that business to grow from under 11 million last year to probably 25 million dollars plus in 2011 and that's going to change that business dramatically.

THE COURT: What's the basis for your optimism? I mean, that is -- I have to say that I've looked at your projections and based on historical trends I'm wondering how is this possible.

THE WITNESS: Your Honor, we have contracts from a number of customers for these parts. Why is that happening? I think honestly we've had promises from customers in the past. We've quoted a lot of business from people who said they wanted to move business from existing suppliers and we've been told we're competitive and they come back to us and they say, oh, we're going to leave them where they are. And our assumption is that what's happened is existing suppliers have said, well, I don't really like meeting that price but incrementally that

business is something that if I lose it it's going to cost me even more, so I'm going to for the time being continue that volume. I'll just meet the price. And what happens at the end of that period is you have all your business price incrementally where you say, well, it's at least contributing a couple dollars to the bottom line. But when you get done, you still have the overhead of running the facility and you don't make any money, you're losing money. And you say, why am I doing this.

That's changed. Now we have customers who come to us saying, we need you to do this and we've been given contracts on a number of these parts. Not 100 percent of the growth, but contracts in which they commit to buy their requirements of a particular part from us and from, I'd say, real customers. Not people that are fly-by-night and a lot of companies that we think will be long-term survivors.

THE COURT: What's the monthly overhead you anticipate eliminating by consolidating Warren, Ohio with Rock Hill and to some extent Jasper?

THE WITNESS: I don't have a firm number, Your Honor, but I believe it's around $300,000.00.

THE COURT: A month?

THE WITNESS: A month.

THE COURT: And what -- do you own the Warren facility?

THE WITNESS: We do.

THE COURT: And what's your plan? What are you going to do with it?

THE WITNESS: We are when we get done with it going to put it up for sale.

THE COURT: Go ahead, Mr. Strochak.

BY MR. STROCHAK:

Q. Mr. Lubin, let's stick with the topic of forecasting for just a second. Could you explain how the debtors billed their individual forecasts on a facility-by-facility level?

A. Are we talking cash forecasts or operating P&L fore --

Q. The operating forecast.

A. They're billed facility by facility. They are based upon detailed projections by part number. To the extent that customers have input, we rely on customer input, if it makes sense. We -- to the extent that we're looking at automotive industry forecasts, automotive OEM business, we do two things. One is in our insulator business, we have detailed forecasts of the projected engine builds. We get a forecast of the entire projected automotive build from a well recognized service. CSM Worldwide I think is the name of the company. I think they're considered one of the two top forecasting services. We used to use JD Power [Ph.] and I think they're the other one and I think they're both in the same class. We found CSM to be better but we get a forecasted to total auto build. We then go

back to CSM and say because our insulators are related to engines rather than platforms, you may have an engine that goes across several platforms. We need a forecast of the build by engine type because that -- that engine is what determines which spark plugs, which wiring sys -- which ignition wiring systems and which boots they require. So we build our forecast based upon that and it's done part number by part number. To the extent that we don't have that sort of visibility, our connector seals business, for example, the parts are generic. They go across many, many platform types. You can't tie them to a platform. Our own customers can't do that because we've asked them to do that, so we do the best we can which is to use the overall build levels and we extrapolate the build levels that are built into the CSM forecast. With respect to the medical business, we -- to our very best ability we go back to the customers and ask them to detail forecast by part. In some cases you get very good forecasts or detailed forecasts. In some cases you don't get anything and all you can do is work with history, but we intend to do it -- to build sales part number by part number based upon the best available information as to what the demand for those parts is going to be. It's not perfect but we do the best we can. We think we have a reasonable amount of backup behind that and we think it makes sense. We then build the expense structure based upon those sales. We -- our individual operating units determine the

number of people that are required in each department who are going to make the parts necessary to fulfill those sales requirements. They determine the overhead structure that's necessary and they build the expenses that way based upon the volumes.

Q. Looking at the company as a whole on a consolidated basis over the last three years has the company met its EBITDA forecast?

A. We have not. We've missed it in some cases by substantial amounts.

Q. What are the circumstances that have resulted in missing the forecasts?

A. Well, I think there have been two major factors. One is that the automobile decline started in 2006 and I would say it's accelerated beyond anybody -- anybody's projection or expectation. The forecasting services themselves have reduced their forecast time after time after time sometimes from one month to the next.

Q. Let me stop you right there if I could for just one second and turn, if you would, to Exhibit 9 -- Debtors' Exhibit 9 in the binder.

A. I'm there.

Q. Could you tell me what Exhibit 9 is?

A. I believe this is a history of the forecast that CSM Worldwide produced for the world, not for Lexington but for the

world, over the period of time from January '05 through today. And as you can see, they have consistently pulled their numbers down in some cases by dramatic numbers within just short periods of time. I'm not blaming them but this is the reality of people trying to forecast the automotive OEM business in this world.

Q. The debtors subscribe to the CSM service?

A. We do.

Q. And this is data that CSM provided to the debtors summarized?

A. Yes, it is.

MR. STROCHAK: Thank you. Your Honor, we offer Exhibit 9.

MR. BRACHT: No objection, Your Honor. Jerry Bracht.

THE COURT: All right. Exhibit 9 is admitted in evidence.

(Debtors Exhibit 9 is admitted.)

BY MR. STROCHAK:

Q. Mr. Lubin, you started to talk about two reasons for missing the forecast. The first was the auto-build. What's the second?

A. The second reason I believe is that we have had this continuing overhang of excessive debt, defaults, near defaults, forbearance agreements and I would say we did not know how to make an assessment of the impact of that situation on our

customers business they might remove because they are concerned. We have business units where we are -- we have been at one time well over 50 percent of the market for, let's say, connector seals for automotive wire harnesses and we have customers who are extremely nervous relying on a company that is under forbearance agreement items. So we've had a lot of situations where we have been promised business but people have ultimately decided not to give it to us.

THE COURT: Do you track your market share?

THE WITNESS: We try, Your Honor. I don't think we have -- we have a very good handle on where we stand in the insulator business, particularly in the after market. We don't have that good a handle on the OEM connector seals market because it's right out --

THE COURT: What's happened to your percentage of your -- of the market over the last three years for your products because I understand your point about CSM forecast is the whole industry has declined dramatically and how has your -- how, if at all, has your market share changed over that period?

THE WITNESS: If you look in the automotive segment at all, we believe our market share and after market has gone up by quite a bit through additional product we offer and the fact that customers have tried other suppliers who've offered them bargain prices in some cases and they found out that what

they're getting is bargained parts, parts that don't meet their requirements.

THE COURT: Right. But what about with respect to the OEM market?

THE WITNESS: In OEM we believe that in the insulator business we pretty much held our share and in the connector seal business we've lost some share, but we don't know exactly how much.

THE COURT: Okay.

BY MR. STROCHAK:

Q. Mr. Lubin, what steps have the debtors taken during the course of the Chapter 11 cases to adjust with -- to adjust for, you know, the continuing decline in EBITDA and the company's results and the continuing changes in the -- particularly in the OEM market?

A. I'd say we've made we think very aggressive efforts to bring our costs and our expenditures back in line with our sales levels. Sales have certainly dropped by more than we anticipated they would. We believe it's almost 100 percent related to automotive OEM, some that's afflicting everyone, but we've made we think rather substantial efforts to match those with reductions in spending and we believe we've been pretty successful doing that. We are, for example, running our machining facility essentially 32 hours a week right now. Our people in that facility are -- our salary people are taking 80

percent of their salary. Our hourly people are working only four days and in some cases three days. We're making every effort to bring that expense in line. Our connector seals business we have -- the machine part -- what products is that with respect to?

THE WITNESS: They make parts for -- turn machine parts for primarily the automotive OEM. They have some industrial business but the bulk of the business right now is automotive OEM, lot for HVAC systems and connections in those --

THE COURT: In what percentage of your overall business is the machine parts?

THE WITNESS: It's probably under 15 percent.

BY MR. STROCHAK:

Q. Mr. Lubin, what's been going on particularly in the OEM market in December and January -- December of 2008, January 2009?

A. I would say people are not building cars and customers to a very large degree except where they're out of balance are not buying. They're using their existing inventories.

THE COURT: I know the manufacturers have this lengthy shutdown every holiday. Did you shut down as well?

THE WITNESS: We shut down -- all but the medical facility was shut down for at least half the month of December. The connector seals business and, as I said, I guess responsive

to Mr. Strochak's earlier question that was shut down for three weeks of January and first couple of weeks of February. We're running a skeleton crew right now and once we get these contracts in place, we're going to run it quite aggressively to build the inventories, but we've taken extended shutdowns. The insulator business which has suffered to a much lesser extent from some OEM turndown or downturn has also taken aggressive action to reduce costs because their OEM business is right now essentially nonexistent. It's under five percent of their volume.

THE COURT: And you talked about this before, but when do you anticipate having new contracts in place with respect the connector seals business so you can move forward with consolidation?

THE WITNESS: We believe we'll have them in place by the middle of March.

THE COURT: Thank you.

BY MR. STROCHAK:

Q. Let me switch gears a little bit here, Mr. Lubin. You know, in early January the company made a decision to put off a hearing on the disclosure statement and push off the plan process. What were the reasons for that?

A. Well, we had reached the point based upon what we were told by Capital One, which is the lender we were working with principally that we concluded the likelihood of having the

financing to exit Chapter 11 in the time frame it would be necessary in order to have a viable plan to confirm at the end of February was very, very low and we felt it was unwise to move forward at that point in time. We believed at that time and we continue to believe that completing this consolidation will have such a significant impact on the ongoing cash flows of the company that it will change the dynamic getting that financing done. We believe we're going to take a business right now, which as I said is burning $100,000.00 a month in cash and we can move that same business into other facilities and make it into three and a half to five million dollars in cash flow. It's a very significant swing.

Q. Let me just back up one step and ask you to describe for the Court the history of your dealings with Capital One as a potential exit lender to the company.

A. Well, we started talking to Capital One before we were thinking about even going into Chapter 11. They made a financing proposal in connection with the sale of -- prospective sale of the medical business that we think would have been viable financial proposal. They made a subsequent financing proposal and we were not in the position of moving forward with the medical sale to finance the business in total assuming we worked out a restructuring of the subordinated debt that we think would have been a viable proposal. When finally we couldn't come to any agreement on any one of those things we

filed Chapter 11 and began to speak to them shortly afterwards and they made us a proposal or perhaps more than one -- I can't keep track at this point -- to finance the business on an ongoing basis as an exit lender.

Q. Did the debtors ever execute any of those proposals?

A. We did not.

Q. What's your understanding of what the proposal means? Is that something that's a commitment, I guess is my question.

A. It's very far from a commitment. It's a basis, I think, for the lender to move forward to earn a fee or potentially earn a fee for moving forward with a transaction. All you're doing by executing the proposal is getting the lender to move forward. We did not like the idea of committing to pay a fee for a commitment if it came into -- that might ultimately not be the right commitment to fund the plan or reorganization we were going to be working forward on. But we were able to get them to move forward with their due diligence notwithstanding not signing the letter by agreeing to pay their fees. And so they -- in my mind, they did everything they would have done if we had executed a proposal letter with our becoming committed to pay them a fee.

Q. When you say you did pay their fees are they referring to out-of-pocket fees or something beyond that?

A. We pay -- they're out-of-pocket expenses. I'm sorry. I probably misspoke. We agreed to pay their out-of-pocket

expense of doing the due diligence. Appraisals, environmental work, current asset audits that are typical for a secured lender.

Q. And did Capital One, in fact, continue to explore the possibility of financing with you?

A. They did and they performed all these due diligence tasks and they have, to my knowledge, gotten pretty far along on that process.

Q. Now, what happened at the end of December to make you reconsider moving forward with the plan process? In other words, what happened with respect to the exit financing?

A. Well, late December they came to us and told us that they were at this point very unlikely to finance the real estate portion of the company's assets given what's going on in the real estate market generally and they felt that we should go find a real estate lender or some other methodology for financing of real estate. We felt that was a significant enough portion of the financing that until we had something locked down on that it didn't make any sense to really move forward.

Q. Now, have you had negotiations with any other prospective institutional lenders for an exit facility?

A. We have had negotiations with several others. We're talking right now with -- I guess they're called Wells Fargo notes. We always think of as Congress Financial [Ph.], because

they were our lender for many years, but they were acquired by Wachovia which was acquired by Wells and they know a great deal about our company. We believe we'll be receiving a proposal letter from them within this week.

Q. And what's that belief based on?

A. They've told us that they're preparing a proposal letter.

THE COURT: With or without real estate?

THE WITNESS: Without real estate, no. We believe they're going to be finance -- interested in financing the current assets and the equipment.

BY MR. STROCHAK:

Q. Let me just turn you, if I could, to Exhibit 2 in the debtors binder. And if you could just tell me what Exhibit 2 is.

A. Exhibit 2 is just -- I'm sorry. I'm in 3. Exhibit 2 is an email I believe I sent to a lady named Deirdre Martini [Ph.], who is a managing director at Wachovia for the set of financial projections to her and indicating the purpose of this -- I'm sorry. The format for this was that we were assuming that we would consummate a -- we arranged the real estate portion of the financing based upon the assumption of the sale lease back of four of the properties for their fair market value of 7.4 million dollars.

Q. And Ms. Martini is a representative of Wells Fargo or Wachovia?

A. She's the director at Wells Fargo, who is a new business person of Wells Fargo.

THE COURT: She is obviously well known to the Court and most bankruptcy counsel I think in her prior life.

MR. STROCHAK: She is, Your Honor. Your Honor, we offer Exhibit 2.

MR. BRACHT: No objection.

THE COURT: All right. Exhibit 2 is in evidence.

(Debtors Exhibit 2 is admitted.)

BY MR. STROCHAK:

Q. Mr. Lubin, would you explain? Are there any other options for financing meeting some or all of the company's needs for financing that you're exploring?

A. Well, I would say we're exploring several alternatives. One is that we are speaking with a company called Icon Capital [Ph.], which does term loans exclusively. They will lend against complete facilities and they're interested in doing a combination of the real estate and the equipment on the theory that when you have good business and the business produces a lot of cash flow if you ultimately have to sell it the buyer has to pay the loans secured by the facilities because he can't get the business otherwise. And they're looking at the possibility of doing a combination of real estate and equipment loans. We are talking to a firm in Chicago called -- I believe it's AIC Ventures -- about the possibility of a sale lease back

along the lines we built in here. We also have begun conversations with two of our largest customers and our largest supplier about their -- the possibility of their participating with us in what we call the investor loan in our disclosure documents.

Q. Now, what's the investor loan, if you could flesh that out for us.

A. It's right now a rollover of the DIP facility of four million dollars into a second lien facility that would sit underneath the new secured lender but we're looking at the possibility that given the marketplace we will very likely have to raise that amount by some number. We don't know how much that will turn out to be, but we've begun to speak to people who we think would have an interest in participating in this. I would say no one has said, oh, yes, we're sending you a check, but every one of them have said, yes, we can consider that. We'd like to know more.

Q. Mr. Lubin, based on the reactions you've had from, you know, all the people you've talken -- spoken with about potentially financing the business do you believe that the debtor's businesses are financable?

A. We do.

Q. Do you believe that they're financable in an amount that will be sufficient to fund the plan of reorganization?

A. Well, we think they are but I guess we don't know. It's a

very unusual market. It's very, very difficult out there. What's nice right now is we're speaking to people who are not banks that have taken TARP money who are trying to find ways to reduce their portfolios and need some real reason to lend. They're talking to people, customers and suppliers to whom we mean something a little bit different because we're critical to them. The fact that they're willing to even think about this, which is a bit unusual, we think is indication that it's in fact -- we sit in that position relative to them.

Q. Let me turn now to negotiations with the Committee over the restructuring process. Could you just give us a summary of the latest back and forth with the Committee in terms of trying to negotiate a consensual plan of reorganization? I think in terms of a time frame probably to update the Court since we were last here in October and the last exclusivity motion.

A. I'd say we've had one or two meetings with the Committee. We've made some proposals to them. They've made some proposals to us. Obviously, this is all protected, but I guess we --

Q. Yeah, just to be clear, I'm not asking you to describe the specific proposal, just the process.

A. We -- frankly, we don't believe the proposals we've gotten from the Committee pass the straight face test. We just don't think that they are in any way advancing the ball. They're setting the ball further back. Because we continue to have this enormous difference in valuation, we have requested the

Committee to arrange a meeting of both principals and financial advisors to sit down, talk about valuation, look at our valuation which we've given fairly detailed information on to the Committee and we said we'd like to see the equivalent information from your advisors. We have been told right now they're not prepared to share that and they have declined a meeting.

Q. Let's turn to Exhibit 10, Debtors Exhibit 10, if I could. Mr. Lubin, what is Exhibit 10?

A. This is an email from Mr. Altineau [Ph.] to Bob Welch, who's the chairman of the Committee, and Nick Walsh who I think is the second largest or third largest after ourselves holder of the notes following up a telephone conversation they had the previous day. And it's another request for a meeting between principals and financial advisors to talk about valuation in the hopes of trying to move the reorganization process forward on a consensual basis.

MR. STROCHAK: Your Honor, we offer Exhibit 10.

MR. BRACHT: No objection, Your Honor.

THE COURT: Exhibit 10 is admitted in evidence.

(Debtors Exhibit 10 is admitted.)

MR. STROCHAK: Your Honor, if I could just ask the Court's indulgence for just one minute as I look over my notes.

THE COURT: Sure.

[Pause in the proceedings.]

MR. STROCHAK: I think I'm through, Your Honor. I'll pass the witness.

THE COURT: Thank you. Mr. Bracht, you're going to go next?

MR. BRACHT: Thank you.

CROSS-EXAMINATION

BY MR. BRACHT:

Q. Well, Mr. Lubin, we kind of left off talking about the exit financing issue so let me follow-up with that little bit and then we'll go back to some of the other issues. Recently you had a communication from Cap One regarding their willingness to go forward with respect to consideration of exit financing. Is that true?

A. You're referring to a letter we received from them that indicated that if we weren't ready to go by March 15, I believe, that they would not be interested in pursuing it?

Q. Yes.

A. Yes, we have.

Q. Okay.

MR. BRACHT: Your Honor, I believe that -- Your Honor, that is Exhibit PP and we would offer Exhibit PP at this time.

MR. STROCHAK: No objection, Your Honor.

THE COURT: Just give me a second.

MR. BRACHT: You're not going to be finished with

your --

THE COURT: Just -- I didn't rule yet. I was getting my papers in order.

MR. BRACHT: I'm sorry, Your Honor.

THE COURT: All right. Hearing no objection, Exhibit PP is in evidence.

(Committee Exhibit PP is admitted.)

THE COURT: Go ahead, Mr. Bracht.

BY MR. BRACHT:

Q. You're not going to be finished with your consolidation effort by March, are you, Mr. Lubin?

A. We are not.

Q. You consider Capital One to be a viable source of exit financing at this point?

A. Well, I would say they are still a possibility based on the conversations we've had with them but I wouldn't say we're counting on them.

Q. You've gotten anything in writing from Cap One that would modify or otherwise --

A. We have not.

Q. -- deflect from Exhibit PP?

A. We have not.

Q. With respect to --

THE COURT: Let me ask. Did you have discussions with Cap One? Do they understand your timetable for the

consolidation? Do you --

THE WITNESS: They do.

THE COURT: Okay.

THE WITNESS: One could ask what was the purpose of that letter when they have no commitment to do anything.

THE COURT: I'll leave that with Mr. Bracht to deal with. I just --

BY MR. BRACHT:

Q. With respect to --

THE COURT: Did you understand it as a goodbye handshake, the letter?

THE WITNESS: Well, I would say we weren't pleased to receive it. We thought it was sort of remarkable, but I've had conversations with Mr. Altineau --

THE COURT: Well, I'll leave it to Mr. Bracht if he wants to get into it or not.

MR. BRACHT: Thank you, Your Honor.

BY MR. BRACHT:

Q. Mr. Lubin, let's talk a little bit about your conversations or your negotiations with Wells Fargo. As I understand it, you started talking with Wells Fargo in late December of 2008. Is that true, sir?

A. I think it was probably early December.

Q. Okay. You've not received anything of substance in writing from Wells other than emails, arranging for meetings

and discussions. Is that true?
A. We have not received a proposal from them or commitment from them.
Q. Nothing in writing and nothing concrete?
A. Correct.
Q. You have no meetings scheduled with Wells. Is that true?
A. We have no meetings scheduled because the next step is that they've indicated to us they're going to be providing us with a proposal letter.
Q. And is that a proposal letter like the one you got from Cap One back in July of 29th of 2008?
A. I don't know what it's going to be. It won't be a commitment letter, but I don't know what it's going to say.
Q. And you believed you were going to get a proposal letter in the next week or two, correct?
A. Oh, I think we were going to get a proposal letter this week.
Q. This week?
A. This week.
Q. Okay. So when I took your deposition last week it was "in the next week or two," right?
A. Well, they've spoken to us since then.
Q. Okay. With respect to AIC Ventures that's our -- yeah. AIC Ventures, is that right? That's Mr. Dalfitt [Ph.]?
A. Yes.

Q. And that involves a potential sale lease back on a portion of your assets. Is that true?
A. That's correct.
Q. You haven't spoken with Mr. Dalfitt in two weeks, have you, sir?
A. That's correct.
Q. You have no proposals or commitments from Mr. Dalfitt?
A. We do not.
Q. And you expect to hear from him within the next one or two weeks, correct?
A. I believe so.
Q. When --
THE COURT: Why do you believe that?
THE WITNESS: Because he's indicated to us that he will be getting back to us with a determination whether they want to go forward or not.
BY MR. BRACHT:
Q. With respect to Icon Capital you've had a couple of meetings with Icon Capital, correct?
A. We have.
Q. You've received no proposals or no commitments from Icon Capital?
A. We received a proposal quite some time back, but basically because Capital One indicated an interest in doing the entire facility we sort of dropped it so we've gone back to Icon and

they're reviewing it and we believe we'll hear from them this week as well.
Q. No current proposal --
A. No, sir.
Q. -- regarding the sale of the lease back proposal? The one you're we're talking about --
A. It would be a sale --
Q. -- was something that was back in the June/July time frame?
A. That's correct.
Q. Okay. You've got nothing scheduled, no meetings scheduled with Icon Capital. Is that true?
A. We're expecting to hear from them this week.
Q. Do you have any meetings scheduled with them --
A. No, sir.
Q. -- currently?
A. No, sir.
Q. You've not received anything in writing from them?
A. Correct.
Q. And you think you're going to hear from them within the next week or two, correct?
A. Within this week.
Q. Okay. Now, you told us that you learned from Cap One in late December that Cap One was no longer interested in lending on the real estate, correct?

A. That's correct.
Q. You also learned from Cap One on October 22nd of 2008 that Cap One was unwilling to fully underwrite the entire debt facility. Is that true, sir?
A. I don't remember the date but there was a point in time in there that we did do that.
Q. Okay. Let's look at my -- look at Exhibit BB.
A. Which book am I in? Committee's? Okay. BB. Yeah, wrong book.
Q. Mr. Lubin, this is an internal email from Michael Burns -- or to Mr. Altineau at Cap One regarding some contacts that you had with Mr. Altineau on October the 22nd or thereabouts. Is that true?
A. Yeah, I'm not sure that I received this or when I received this. This an internal email at Capital One. I'm not sure we ever got this email. I know we requested at one point in time to authorize them to begin to speak to syndication partners which we had no problem with but I don't know that they ever said to us at this point in time that they would not fully underwrite the facility.
Q. Remember when we talked about this in your deposition?
A. I remember talking about it, but I don't recall the --
Q. Okay. And at the point in time of the deposition it was Exhibit 19 to the deposition of Mr. Altineau and let me -- I'm going to show you and direct your attention --

THE COURT: Go ahead.

MR. BRACHT: You need a copy -- original --

THE COURT: Well, go ahead and let me --

THE WITNESS: I'm not [unintelligible], Your Honor.

MR. BRACHT: Excuse me?

THE WITNESS: I'm not [unintelligible].

MR. BRACHT: Okay.

BY MR. BRACHT:

Q. Let me -- you can see here starting on --

THE COURT: Just reference page and line numbers.

MR. BRACHT: Yes, sir.

BY MR. BRACHT:

Q. Starting on Page 107, we're talking about Exhibit 19 and we're talking about the conversation that you had with Mr. Altineau that's reflected in Exhibit 19 indicating that you would have no problem with Capital One syndicating the loan, right?

A. Absolutely.

Q. Okay. And then we go on to talk about Exhibit 19 and I ask you on Page 108, Line 20, I ask you "You see in the next paragraph where Mr. Altineau says the current financing climate is such that if we obtain credit approval on Lexington we would be unwilling to fully underwrite the entire debt facility for Lexington." And your answer was, "Yeah, you are right. Then that would be it. I was only focused on the first paragraph as

you asked, but that does not say that. I would say this is the first time, October 22nd of 2008. Um-hum." And I said, "Okay, is that a yes" and you said, "Yes." Is that -- did I read that correctly, Your Honor -- I mean, Mr. Lubin?

A. Your -- you read very well. I agree with that but I guess when I look at this email trail, I don't know that we ever received this email. That's what this email says but this is apparently a letter that Altineau had drafted that he passed around inside Capital One. When he speaks about "Mike's note below" that's Mike Burns. That's not Mike Lubin and I'm not sure that we ever got this email. I know we were requested to give him authorization to begin syndication partners, but I don't think that's the same thing as telling us that they would not underwrite the entire facility.

THE COURT: The email says that "Please review the letter I have drafted below to Mike Lubin." Did you receive a letter from Mr. Altineau that sets out --

THE WITNESS: Your Honor, I don't remember getting one. I remember having a conversation in which he asked that we'd authorized him to begin to talk to syndication partners and we said, "Why not? We have no problem with that. Why should we make their risk greater?" but I may have received such a letter. I don't remember getting it but this is all internal. I guess I got a little confused in deposition.

MR. BRACHT: Your Honor, this is covered in

Mr. Altineau's deposition designations to which we have made --

THE COURT: I read it.

MR. BRACHT: And in which he confirmed that there was a conversation not only about syndication but also about the fact that he told Mr. Lubin that they were unwilling to finance 100 percent of the debt. And, Your Honor, in context of our offer with respect to Mr. Altineau's deposition, this is one of the exhibits that we've offered and we would move admission of Exhibit BB at this time.

MR. STROCHAK: Relevance, Your Honor. It's an internal email.

THE COURT: Did Mr. Altineau communicate to you that Cap One would be unwilling to fully underwrite the entire debt facility for Lexington?

THE WITNESS: Your Honor, it's very possible but I don't recall. I recall the conversation about authorizing them to speak to syndication partners. Didn't consider that to be any kind of an issue.

THE COURT: I'm going to sustain the objection for now. When you offer Mr. Altineau's deposition testimony you will -- do offer it again.

MR. BRACHT: I will.

BY MR. BRACHT:

Q. That conversation -- do you agree that that conversation was somewhere around October 22nd of 2008?

A. I couldn't place it in time.
Q. Okay. Do you remember that the sec --
A. I wouldn't be surprised at that.
THE COURT: One at a time. One at a time.
Q. Do you remember that the second exclusivity hearing was on October the 29th of 2008?
A. I don't remember that but I'll take your word for it.
Q. At the second exclusivity hearing you didn't say anything about Capital One's willingness to underwrite the entire amount of the debt, did you?
A. I don't recall.
Q. Okay. Do you recall what you did tell us --
A. I don't --
Q. -- about exit financing with Capital One during that hearing?
A. I don't recall that, no.
MR. BRACHT: Your Honor, I have Page 80 of the transcript of the October 29th hearing.
THE COURT: You can either use it to refresh his recollection or you can do what you -- are you offering the testimony? What -- tell me what you're doing.
MR. BRACHT: I want to refresh his recollection.
THE COURT: Go ahead.
MR. BRACHT: But I thought I put it on the --
THE COURT: I put it on the screen.

MR. BRACHT: -- the screen.

THE COURT: Let me switch over. Did -- is your monitor turned on?

THE WITNESS: No.

THE COURT: It needs to face you.

BY MR. BRACHT:

Q. Okay. Do you see it there, Mr. Lubin? Can you see the page?

A. I can see part of it, yeah.

Q. At the very --

THE COURT: Just tell me what page that is again.

MR. BRACHT: Excuse me.

THE COURT: What page is that?

MR. BRACHT: Page 80, Line -- starting at Line 1, Your Honor.

THE COURT: Thank you.

BY MR. BRACHT:

Q. And at the very top of the page, Mr. Lubin, I asked you -- you had previously testified about an inventory issue concerning the Cap One financing and I asked you just a couple of questions about this inventory issue. I mean, you're not suggesting that you're million dollars apart with Capital One and that if you bridge that gap that you're going to get your exit financing and your answer was "We believe we will." Did I read that correct?

A. That's correct.
Q. So at the time of the hearing it was your belief that you were a million dollars apart with Capital One. Is that true?
A. That's correct.
Q. Did you ever learn subsequent to October 29th just how much Capital One was willing to fund with respect to exit financing?
A. With respect to?
Q. The exit financing.
A. Not from Capital One.
Q. Well, did you -- how did you learn?
A. Someone showed me an exhibit of a -- of some internal work that Capital One had prepared but I don't recall specifically getting an indication from them how much they would lend and not lend.
Q. Your testimony is is that they never told you that you -- that they were not willing to lend you 100 percent of the amount of the exit finance that you had -- that you needed?
A. Well, they told us -- in late December they told us they would not do the real estate portion.
Q. Okay. Other than the July 29th proposal that you did not sign you never got another proposal with respect to exit financing that was signed by Mr. Altineau, did you?
A. I don't recall, but that's very possible.
Q. Let's turn to your consolidation plan. Let's talk about

that for a minute. I just want to make sure that we -- I want to talk about the facts. Okay. I don't want to talk about what you believe or what you think. I want you to tell me factually where you are with respect to your consolidation plan. As I understand it, there are several contingencies, one of which is you have to have contracts, written contracts with your customers, right?

A. That's our requirement.

Q. Right. That's your requirement. And if you don't get those written requirements -- written contracts you're not going to do this, are you?

A. That's correct.

Q. Okay. And you actually need two contracts from your customers, don't you?

A. That's correct.

Q. Both in writing, one for this inventory build-up that you described and their commitment to purchase that inventory --

A. That's correct.

Q. -- ahead of time.

A. That's correct.

Q. You're not going to start building the inventory up until they agree to purchase it and pay for it, right?

A. That's correct.

Q. The second contract that you need is a long-term contract with these customers, right?

A. Correct.
Q. And you're looking for a long-term contract in writing that goes through 2012, correct?
A. That's right.
Q. And if you don't get those long-term contracts from your customers you're not going to do their part, correct?
A. That's correct.
Q. Because you're not going to incur the expense and the problems of moving these molds and moving this equipment until you have a long-term commitment from your customers for connector seals that runs through 2012.
A. That's correct.
Q. With respect to the inventory build-up you've said that you're expecting a three-month build-up of inventory for your larger customers, correct?
A. For the larger parts for our larger customers.
Q. Okay.
A. That's correct.
Q. And the forecast that you have given that's in January as we have seen that forecast was based on a six-month build-up, was it not?
A. That's correct.
Q. A six-month build-up of customers with signed contracts paying for all of that inventory up front?
A. That's correct.

THE COURT: I thought the cash forecast was based on three months, not six months.

THE WITNESS: It was, Your Honor. I think he's referring to the financial forecast.

THE COURT: All right.

BY MR. BRACHT:

Q. And you talked about the larger customers but with respect to the smaller customers that you have, which are customers below a certain level of volume, you're requiring those customers to commit to a 12-month inventory build-up, correct?

A. That's not correct.

Q. Excuse me?

A. That's not correct.

Q. Is it not correct?

A. No. We made an assumption that we would only keep a portion of the business and that the smaller customers want more inventory. We made an assumption that they would want 12 months, but we'll build what they need. We made the assumption they would move parts to other suppliers, which would require a much, much more lengthy and detailed qualification process.

Q. Well, clarify for me, Mr. Lubin. Are you going to request a 12-month inventory build-up for your smaller customers?

A. No.

THE COURT: What percentage of your connector seal business is from your four large -- you'd say the four large

customers?

THE WITNESS: I would say, Your Honor, it's over 80 percent of the business.

THE COURT: And those are the customers that you want the long-term contracts with?

THE WITNESS: I would say any parts that we're going to move to the new facility we're going to require contracts. There's no point in spending the money to move these other -- go through the qualification process, move the molds, move the presses, and then have the customer say, oh, I've decided to resource it. I think on the flip side the customers always want some continuity. They're very nervous people in the automotive industry because they're afraid their entire supply base could fall apart.

BY MR. BRACHT:

Q. Are you going to be asking your small volume customers for any commitment whatsoever with respect to inventory build-up?

A. We're going to ask them to commit to whatever they think they need to cushion them in the interim. We'd assume they'll be looking for the same kind of volume.

Q. You've assumed for purposes of planning that that would be a 12-month commitment, correct?

A. No. Smaller customers -- I believe we -- well, actually I'm not sure we've assumed -- we've assumed for the financial forecast that those customers would not move. That's not the

way it appears now based on conver --

THE COURT: What do you mean, "would not move"?

THE WITNESS: That -- that's a bit confusing. I agree. We've assumed that the smaller customers would not move the parts to our other facilities. They would resource them. What we're getting back from those customers is exactly the opposite that they want to seem to stay with us. So we're going to ask them to do the same thing. You may be getting a little confused between low volume parts and low volume customers. Mr. Bracht, I'm not trying to be obtuse here, but we've told the customers that because of the number of PPAPs that are going to be required or the number of qualifications and we have over 500 part numbers, which probably encompasses something like 600 molds, we've told them that the practicality is that we -- we can take the higher volume parts, which we're measuring at $15,000.00 a year or more in volume, and that we'll build whatever they see as a necessary bank to get them through the qualification process on the assumption that we will qualify those molds as quickly as we can.

What they're telling us now is between six to eight weeks is the low end and four months on the high end and we're estimating that to roughly be three months. We've also told them that on the smaller volume parts we do not intend to begin qualification until later. These don't amount to a huge amount of dollars but the practicality of getting this much paperwork

done in, let's say, the three-month period is very, very low. So we've told them they have to buy a longer period of time if they want to have supply. If they want to move the parts to another supplier they can do that but if they want to be supplied by us, we've suggested to them they have to buy a year's worth of inventory on those smaller volume parts. It doesn't amount to a lot of dollars but this may be what you're getting confused in.

MR. BRACHT: All right. Well, thank you for correcting me.

BY MR. BRACHT:

Q. So it's with respect to the lower volume parts that you're requesting a 12-month inventory build-up?

A. Right. And the financial forecast actually assumes that those parts would never go back into production in our plants again. Again, that's not the way it's looking.

Q. And just --

THE COURT: There's a cost to you in moving those low-volume parts production to the other facilities?

THE WITNESS: There is, Your Honor. It's not an enormous cost but there is a cost. And again, we would re -- if they wanted us to continue to make the parts we'd require them to sign a contract for them because why do it? Again, the financial forecast was built on the assumption that we would not be continuing to make those parts, but I think we have

roughly 80 percent of the business staying with us and 20 percent of it going away. A bit chunk of that is the smaller volume parts. It doesn't appear that way. It appears they're going to want us to keep all of those parts and move them to new facilities.

BY MR. BRACHT:

Q. Just to be clear, Mr. Lubin, isn't it true that as we speak that none of your customers have committed to anything?

A. That is correct.

Q. And isn't it further true that as we speak the customers have not seen the contracts that you are proposing that they agree to?

A. Two of them have actually seen the contracts and are reviewing them. The others have not but I would say the others are looking at -- with the exception of the transition agreement, which we've described to them in our initial conversations the long-term contracts are an exact duplicate of the existing contracts they have and the pricing is an exact duplicate of the existing contracts they have. The Delphi contract is simply an extension of the existing Delphi contract on fundamentally the same terms. The Tyco contract is an extension of a contract -- actually, it's a renewal of a contract that we had in place before.

MR. BRACHT: Your Honor, I've been patient. I want to object to the last part of this question as nonresponsive.

THE COURT: Just ask another question. I thought it was responsive. Go ahead.

MR. BRACHT: My question was, Your Honor, that the customers have not seen the contracts.

THE COURT: He said two of them have.

MR. BRACHT: Two of them had and then he went on to explain all this other stuff about --

THE COURT: Ask your next question.

MR. BRACHT: -- what he thinks and what he believes.

THE COURT: Ask your next question, Mr. Bracht.

BY MR. BRACHT:

Q. You indicated that two of your customers have actually seen the contracts, correct?

A. That's correct.

THE COURT: And we'll move faster if you confine yourself to Mr. Bracht's questions. Mr. Strochak has more questions after. He'll --

THE WITNESS: I'll do my best, Your Honor.

THE COURT: Go ahead, Mr. Bracht.

BY MR. BRACHT:

Q. And I assume then that those customers got those contracts sometime within the last week after I took your deposition?

A. Correct.

Q. Another contingency with respect to this consolidation is that you need to prepare the facilities for receiving the

equipment and the molds, right?
A. Correct.
Q. Now, you indicated earlier that your moving parts took three facilities: Rock Hill, that's in South Carolina, right?
A. Correct.
Q. That's going to take about 60 percent of the Vienna production?
A. I believe that's right.
Q. And then 30 percent is going to Jasper and that's in Georgia, correct?
A. Correct.
Q. And then there's 10 percent that's going back to North Canton, right?
A. Correct.
Q. And that's the liquid silicon rubber business, right?
A. Correct.
Q. And that's the same business that you moved from North Canton to Vienna within the last year or so in order to eliminate overhead at North Canton, correct?
A. That is correct.
Q. So you're moving it right back within a year?
A. That's correct.
Q. Okay. You have not moved equipment from Vienna to Rock Hill as we speak, have you, sir?
A. We've actually moved quite a lot of equipment to Rock

Hill, but it's equipment that's being used in the medical business right now.

Q. All right. So let's talk about the equipment that's going to be used for this consolidation of the connector seals. You've not moved any of that equipment to Rock Hill as we speak, right?

A. We have not.

Q. And you do not anticipate moving that equipment until April at the earliest. Is that correct?

A. We expect to start moving in April.

Q. All right. And that's because the space where you're going to be putting the connector seals production is being used by medical because of the fire that you had in the other facility?

A. That is correct.

Q. And --

A. But actually what that means is the facility was substantially prepared. Moving the equipment is a very modest undertaking, not difficult to do. The bigger issue is you have to have the utilities and the other key hookups to have the equipment function. A lot of that work was already done because that building was prepared to move presses in to run the medical parts while the clean room and the other building was being reconstructed.

MR. BRACHT: Objection. Nonresponsive, Your Honor.

THE COURT: Overruled.

BY MR. BRACHT:

Q. And isn't it true that the work at the Jasper facility has not started yet?

A. That's correct. It's been quoted; not started yet.

Q. You need to convince key people at Vienna to move, correct?

A. That's correct.

Q. You need to convince those people to move from Ohio to Georgia or to South Carolina, correct?

A. Two people to Georgia and I believe it's six people to South Carolina.

Q. Have you included any incentive package with respect to those people?

A. We have not.

Q. All right. Now, you are proposing an incentive plan for the people remaining behind at Vienna, correct?

A. Well, everybody who is working on the Vienna wind-down will have an incentive package both the hourly and the salaried.

Q. Right. And that --

A. So there is that incentive program for the people who would be moving while they're working on that transition.

Q. And that's so you can ensure you need that plan because you need to make sure that those people are going to hang on

and you're not going to have an interruption in production. Is that true?
A. Correct.
Q. And that incentive plan needs to be approved by the union, correct?
A. That's correct.
Q. And that's not happened yet, has it?
A. Not happened yet.
Q. You mentioned earlier in your testimony, and I wrote it down I think, you talked about the continual overhang of defaults, near defaults and forbearance agreements that have been a part of this company, correct?
A. Correct.
Q. And that has not been of recent origin, has it?
A. It's gone back quite a ways.
Q. It's gone on for at least back into the late '80s?
A. I don't think that's correct.
Q. Early '90s?
A. I think around 2000.
Q. Okay. Well, let's talk about that. Do you recall that the sub debt, as you put it, is a residue of a 50 to 60 million dollar junk bond issue that you had Blasius Industries [Ph.] issue back in the '87 time period?
A. I do.
Q. And Blasius Industries was a -- was the predecessor name

of Lexington Precision?
A. Correct.
Q. And do you recall that after that issue of junk bonds that the company had problems with making payments on those junk bonds?
A. I'm certainly recalling late 2000 those bonds matured and we thought they were going to be refinanced but the market collapsed on us and we didn't do that, didn't complete that refinancing.
Q. My question, sir, is do you recall that you had problems making payments on those junk bonds?
A. I recall at that time, yeah.
Q. And do you recall that you missed a payment on a subsequent reissue of the sub debt as well?
A. I don't have recollection of that.
Q. Okay. Do you recall that the sub debt was initially refinanced in the mid-'90s?
A. I do recall that, yes.
Q. Okay.
A. I think that's right.
Q. And then in 1999 you were prepared and preparing to refinance all of your debt at that point in time, correct?
A. That's correct.
Q. And it took you four years to get that done, correct?
A. That's correct.

Q. And during that period of time you were paying lenders to extend due dates on the loans that were outstanding. Were you not, sir?

A. I don't believe we were.

Q. Let's look at Exhibit QQ. Do you recognize Exhibit QQ?

A. Looks like a set of board minutes from 2005.

Q. I'm sorry. I got you in the wrong spot. I want you to look at Exhibit -- it's the 10,000 -- it's the 2003 10K. Exhibit L.

A. Okay.

Q. Do you recognize Exhibit L?

A. Looks like our 10K from 2003.

MR. BRACHT: Your Honor, I would move admission of Exhibit L.

THE COURT: Exhibit L is in evidence.

(Committee Exhibit L is admitted.)

BY MR. BRACHT:

Q. If you look at Page 18 of Exhibit L, Mr. Lubin, up at the top where it says, "Interest Expense," the last part of that last sentence refers to "Fees being paid during 2003 to lenders providing loans under our revolving line of credit to extend the expiration date of the revolving line of credit beyond its scheduled due dates." Do you recall that, sir?

MR. STROCHAK: Your Honor, objection. Relevance grounds.

THE COURT: Overruled. Overruled.

THE WITNESS: I think I do. I don't recall it specifically, but --

BY MR. BRACHT:

Q. And that was --

A. -- it makes sense to me.

Q. That was to prevent a default, wasn't it?

A. No, that was to prevent having no revolving line of credit because the revolving line of credit by its terms expired on that date and like any other lender in order to extend a new line of credit, the lender asked for a fee.

Q. The restructure in 2003 that you did with respect to all your debt included the sub debt that we're talking about today, is that right?

A. That's correct.

Q. In 2004 it's my understanding that Lexington borrowed an additional seven million dollars with an increasing rate note for additional liquidity. Is that true, sir?

A. I don't recall the amount, but I recall a loan of that type.

Q. Okay. And it was for additional liquidity, was it not?

A. I think so.

Q. And isn't it true that as early as 2005 that your auditors expressed substantial doubt about the company's ability to continue as a going concern?

A. I think perhaps earlier than that as long as you have defaults or anything of that type hanging over you. That's generally the position the order to take.
Q. And carrying forward to kind of where we are today, you refinanced your secured debt in 2006. Is that correct?
A. That's correct.
Q. You missed a payment on the sub debt in November of 2006 and that puts you in default on both the secured debt and the sub debt and here we are today.
A. That's correct.
Q. In addition to the financial issues that you've been dealing with for at least until or from the year 2000 you've also been dealing with operational issues with respect to this company for a long time. Haven't you, sir?
A. We've had some.
Q. From 1999 at least to the present your EBITDA numbers and your sales numbers have consistently gone down almost every year, year over year, correct?
A. I don't know that's the case. I think certainly we would want to take a look at the pieces because there's some pieces of this business that contributed very negative numbers --
THE COURT: Mr. Lubin, we'll speed this along --
THE WITNESS: Okay.
THE COURT: -- if you just try and answer Mr. Bracht's questions.

THE WITNESS: I --

THE COURT: If Mr. Strochak wants to elicit more t testimony, he'll be able to do it but you listen carefully to Mr. Bracht's questions and just answer --

THE WITNESS: I don't --

THE COURT: If you can't answer it, you'll just say you can't answer it.

THE WITNESS: I -- it's possible, Your Honor. I don't recall the specifics.

THE COURT: Ask your next question, Mr. Bracht.

MR. BRACHT: Well, Your Honor, excuse me.

BY MR. BRACHT:

Q. Mr. Lubin, we talked about this in your deposition, didn't we? Do you recall that, sir?

A. I recall that you talked about it, yes.

Q. And you recall me showing your 10K numbers from 1999 through 2007, correct?

A. I -- yes, I recall that. I don't remember --

Q. And do you recall that --

A. -- the specific numbers, but --

Q. -- in every --

THE COURT: One at a time. One at a time.

Q. Do you recall that in every year that those numbers went down maybe with the exception of one?

A. That's possible. I don't remember the specifics.

MR. BRACHT: Well --

THE COURT: I guess you're going to have to do it the hard way.

MR. BRACHT: I'm sorry?

THE COURT: I guess you're going to have to do it the hard way.

MR. BRACHT: I'm afraid so, Your Honor.

THE COURT: Let's go back to --

MR. STROCHAK: I would say the proper way, Your Honor.

THE COURT: What I think he was doing was proper. He got an answer from the witness. If he wants to explore it further, go ahead and explore it further.

THE WITNESS: Well --

THE COURT: You want to just show him his testimony and maybe short circuit this or --

MR. BRACHT: Okay.

THE COURT: If you've got -- you know, I'll let you do it any way you want, Mr. Bracht, but if you want to show them -- if you did --

MR. BRACHT: What I want and what --

THE COURT: -- this in his deposition and you got the answers you wanted do that.

MR. BRACHT: All right.

THE COURT: But if you want to go through each of the

reports, do that.

MR. BRACHT: I did want to in this context introduce Exhibit P, which is the 2007 10K because it contains the numbers from like 2003 forward.

THE COURT: Any objection to Exhibit P, Mr. Strochak?

MR. STROCHAK: No, Your Honor.

THE COURT: All right. Exhibit P is in evidence.

(Committee Exhibit P is admitted.)

MR. BRACHT: All right.

THE COURT: All right. Before you go on let me just say this testimony is certainly proceeding more slowly than I anticipate. That's not intended as a reflection on the part of counsel. We're going to go until 12:30. We're going to take a relatively short lunch break till 1:30. We can resume at 1:30. I need to stop today at 5:00. We'll resume. We'll see where we are at 5:00. We may resume earlier tomorrow morning at 10:00. We'll see where we are in the evidence, but for now Exhibit P is in evidence.

THE WITNESS: Your Honor, maybe I can save some time. I certainly remember the questioning. I certainly remember that by and large the [unintelligible] EBITDA declined over this period of time. I don't remember the specifics and maybe that's good enough or maybe not.

MR. BRACHT: Well, let's just put a bow on it. Let me show you Page 71 of your deposition --

THE COURT: Why don't you put it up on the screen?

MR. BRACHT: Okay.

THE COURT: That way we'll all be able to look at it --

MR. BRACHT: All right. I --

THE COURT: -- at the same time. Okay? That's why we turned on the projector today.

MR. BRACHT: I just never can seem to get it straight.

THE COURT: Just have it facing you.

MR. BRACHT: All right.

THE COURT: And if it all doesn't show on there, just there's a button on the side to zoom. You want to -- if you need to you can zoom or you can -- there you go. And there's a focus button if you have -- just --

MR. BRACHT: Okay.

BY MR. BRACHT:

Q. I think we can get it, Mr. Lubin. And you can see on Page 71 that I asked you about how net sales and EBITDA has decreased basically every year since 1999 forward. And you're looking at the 2003 10K, which is Exhibit L, and you say, "I'm looking at 1999 through 2003 and our sale of that period, sales in total decreased in EBITDA." Read that correctly, sir?

A. You did.

Q. Then we go to Exhibit 32 of your deposition, which is a

2007 10K which is Exhibit P for this hearing and I ask you to look at the EBITDA numbers and sales numbers from 2003 through 2007 and ask you the same question and you say, "Yes. The EBITDA declined each year and sales declined each year." And then you correct yourself and you say, "Each year but 2000 [unintelligible] -- 2000 to 2007 [unintelligible] plat of" --

A. Yeah, that's not shown on the screen, but --

THE COURT: You just need to move there. Okay. Does that refresh your recollection, Mr. Lubin?

THE WITNESS: It does.

THE COURT: Okay.

BY MR. BRACHT:

Q. Now, I want to talk with you about this in kind of a bigger picture with respect to this consolidation issue. Lexington has been shutting down and consolidating its businesses since at least 2002. Is that true, sir?

A. Certain of them, yes.

Q. 2002 you closed your Arizona plant, which was part of the metals business and you moved that certain business and equipment from Arizona to your Rochester, New York facility. Is that true, sir?

A. We moved the equipment. We moved very little business but we moved the bulk of the equipment.

Q. And do you recall that the transfer of that business and the consolidation of that equipment with Rochester caused

excess costs and production?
A. Excess costs and production where? I don't --
Q. At Rochester.
A. I don't recall it causing excess costs in Rochester.
Q. Let's look at the 2003 10K again, which is Exhibit 11.
A. Exhibit L?
THE COURT: L.
THE WITNESS: L.
THE COURT: It's Exhibit L, Mr. Bracht.
MR. BRACHT: Exhibit L. Excuse me.
BY MR. BRACHT:
Q. Are you there, Mr. Lubin?
A. I am.
Q. And if you look --
A. But I don't know where, though.
Q. -- at Page 16 you'll see down at the bottom that there is an explanation of the increase in the costs of sales as a percentage of net sales. Do you see that, sir?
A. Yes.
Q. And part of that was caused, according to your 10K, "by excess costs and production inefficiencies caused by the transfer of certain business and equipment from Arizona to the Rochester, New York facility."
A. Yeah, I don't know that that speaks to --
Q. Did I read that correctly?

A. I -- you did. I don't know that that speaks to --

THE COURT: I think you've answered his question.

THE WITNESS: -- the Rochester facility.

THE COURT: I think you answered his question. Go ahead, Mr. Bracht.

BY MR. BRACHT:

Q. So that was a consolidation that at least according to your 10K caused you some increased costs and inefficiencies. Now, it's true, is it not, that a year later or your -- a couple years later in 2004 that Lexington decided to discontinue its die casting business?

A. That's correct.

Q. And that was accomplished in 2005?

A. That's correct.

Q. And then also in 2004 Lexington started to restructure its connector seals business, correct?

A. That's correct.

Q. And part of that restructuring included closing the LaGrange, Georgia facility, right?

A. That's correct.

Q. And the LaGrange, Georgia facility was a facility that was dedicated to the production of connector seals, was it not?

A. Primarily.

Q. And the tooling and equipment that was in LaGrange, Georgia, was transferred and consolidated in Vienna, was it

not?
A. The portion of that business that was continuing, yes.
Q. And isn't it true that the LaGrange consolidation led to increased expenses and production and efficiencies?
A. It's possible but the question is where.
Q. Well, let's look at Exhibit N, which is the 2005 10K.
MR. BRACHT: And if you would, Your Honor, I would offer Exhibit N.
MR. STROCHAK: No objection subject to the relevance tie-up.
THE COURT: Exhibit N is admitted in evidence.
(Committee Exhibit N is admitted.)
THE COURT: I don't know what your subject to the tie-up is. I've admitted the exhibit as in evidence. If you've got an objection, you'd better be more specific about it.
BY MR. BRACHT:
Q. And if you turn, Mr. Lubin, to Page 15 of Exhibit N and the second paragraph from the bottom and, again, you have:
"The 10K explains how your cost of sales as a percentage of net sales has increased to 88 percent during 2005 and one of those reasons listed were expenses and production inefficiencies resulting from the closing of the LaGrange, Georgia facility in the relocation of tooling and equipment from the LaGrange facility to our connector

seals facility in Vienna."
Did I read that correctly?
A. You did.
Q. And we talked already about the fact that also as a part of this restructuring that the LSR business, which is a part of the connector seals, right, that was moved from North Canton to Vienna as well. Right?
A. That's like part of the same restructuring but, yes, it was moved.
Q. You have often in your testimony referred to the success of the after-market business part of your business, haven't you, sir?
A. Yes.
Q. And you've indicated that I believe earlier in your testimony that you think this automotive ill occurred or started in, what, 2006. Is that a fair statement?
A. Oh, at the latest. Probably earlier, but I think I spoke to 2006 before.
Q. Isn't it true, sir, that during 2006 that one of the reasons for a decrease in your net sales for that year to automotive customers was reduced unit sales of insulators to after-market customers?
A. That -- that may be true.
Q. And was it that further true in 2007 as well?
A. I don't recall.

Q. Well, let's look at -- very quickly, let's look at Exhibit P, which is the 2007 10K.

MR. BRACHT: Your Honor, I'm not sure I've offered Exhibit P but I'll offer it now. It's the 2007 10K.

THE COURT: I already have it marked in evidence.

MR. BRACHT: Excuse me?

THE COURT: I have it marked in evidence.

MR. BRACHT: Thank you, Your Honor.

THE COURT: On the 10Ks I have Exhibits L, N and P shown admitted in evidence.

BY MR. BRACHT:

Q. If you'll turn to page 23 of Exhibit P, Mr. Lubin.

A. Yes.

Q. The second paragraph from the bottom it is a description of your -- of the decrease in net sales to automotive customers and it gives various reasons for that. And down at the bottom of that paragraph it says:

"Decreased unit sales of insulators to manufacturers of after-market automotive ignition wire sets primarily due to the decision of a large customer to reduce their on-hand inventory."

A. That's correct.

MR. BRACHT: Let me check. I'll pass the witness, Your Honor.

THE COURT: Thank you, Mr. Bracht.

Mr. Tishler, are you going to present or Mr. Cahn?

MR. TISHLER: Mr. Cahn. I'm sorry, Your Honor.

THE COURT: All right.

MR. TISHLER: Mr. Cahn is going to handle it for us.

THE COURT: All right. Mr. Cahn?

MR. CAHN: Thank you, Your Honor.

CROSS-EXAMINATION

BY MR. CAHN:

Q. Mr. Lubin, the lenders love fees, don't they? You've testified -- you've testified on a couple of occasions where you've either had to pay a fee or were requested to pay a fee to lenders for one purpose or another. The proposal that you expect to get within the next week from Wells Fargo do you think they'll request a fee?

A. I don't know what they're going to request.

Q. Are you prepared to pay a fee if they request one?

A. I think it depends what the proposal says.

Q. All right. How much was the fee that Capital One requested?

A. I don't recall the number. I think they were looking for -- I believe it was half of one percent. Eventually they changed that to asking for a deposit of $225,000.00 with the proviso that if they made us any commitment letter that they could keep any unused portion of that, but I'm not sure.

Q. All right. But you didn't sign the proposal letter,

right?
A. No.
Q. Because you didn't want to pay the fee?
A. We thought we could get them to move forward with their activities in furtherance of refinancing without signing the proposal letter and that's exactly what they did.
Q. Do you think that your tactic that you employed in order to save the fee had any effect on Capital One's evaluation of what doing business with Lexington would be like going forward?
A. I would assume not because they said, yes, we're willing to go forward on this business.
Q. But now they're not willing to go forward?
A. That's correct.
Q. All right.
THE COURT: We're not at March 15th yet, Mr. Cahn.
THE WITNESS: To be fair, Your Honor, I think we'll be there soon enough.
MR. CAHN: Yes, I was reflecting Mr. Lubin's prior testimony, Your Honor, that he didn't regard March 15th as an achievable date to meet Capital One's conditions.
BY MR. CAHN:
Q. You've also testified that you're in the process of submitting contracts to your customers for the connector seals business and Mr. Bracht has cross-examined you on some of the details of those contracts. Are you -- would you be willing as

a condition to the continued use of cash collateral to condition that use on the receipt of signed contracts from the customers that you've identified?

A. I think we can work something like that out. I don't think that'd be a problem.

Q. All right. You identified the four major customers for the connector seals business as Delphi, Tyco, FCI and Molex. Am I correct?

A. That's correct.

Q. Have in the past six months to a year have you lost business from any of those customers?

A. I think Molex may have moved a couple of parts to the far east, which have been there overall emphasis of the last few years. Beyond that, I don't think so.

Q. Have you lost any business from Tyco?

THE COURT: By "lost business" you mean moving the supply to someone else --

MR. CAHN: Yes, Your Honor.

THE COURT: -- as opposed to declining volumes because nobody's making parts?

MR. CAHN: That's correct, Your Honor. Thank you.

THE WITNESS: I think we had one part that was bought by several customers. Tyco, Uzaki [Ph.] North America, and I think another company called Mayfair Plastics, which was a transmission seal that the -- they're ultimate customer

redesigned the part to be made from a different material so, yeah, we lost that business.

BY MR. CAHN:

Q. Can you tell us what the decrease in revenue of sales was for loss of that business?

A. I don't recall the number but it was quite a substantial part. It was between a million and a half and two million dollars, I would think.

Q. Mr. Lubin, referring to Exhibit 5, which has been introduced into evidence, looking at the page which you've already testified to referring to the [unintelligible] in Ohio facility. That is the -- that's the connector sales facility. Am I right?

A. That's correct.

Q. And we also call it the Vienna facility?

A. We did.

Q. Okay.

THE COURT: Just give me a chance, Mr. Cahn.

MR. CAHN: Well, I'm sorry, Your Honor.

THE COURT: That's all right. I think that I would --

THE WITNESS: I think it's the fourth page under.

MR. CAHN: Yeah.

THE WITNESS: Exhibit 5, Your Honor.

MR. CAHN: It is the fourth page.

THE COURT: Okay. I got it.

BY MR. CAHN:

Q. Mr. Lubin, these -- there's the date on the series of projections which is January 23rd of 2009.

A. That's correct.

Q. All right. And looking at the fourth page that I've just referred to, the forecast January sales -- gross sales at $511,000.00.

A. That's correct.

Q. And what was the actual sales number for that month?

A. I think that it was under $300,000.00.

Q. And, in fact, at your deposition last week you testified it was 273 -- $273,000.00. Am I correct?

A. Sounds right to me.

Q. All right.

THE COURT: That's January?

MR. CAHN: January of 2009. Yes, Your Honor.

THE COURT: Okay.

MR. CAHN: Last month.

THE COURT: Yes.

BY MR. CAHN:

Q. You also testified on direct examination that once you complete the consolidation of the connector seals business to Rock Hill and Jasper, you plan on selling the Vienna facility. Have you -- pardon me if I use a phrase which is becoming

current -- tested the market for the sale of that building?
A. We have not.
Q. So you have no idea as you sit here today what you could get for that facility or when you could sell it?
A. All we have is an appraisal that was done over the summer. It's the only basis we have right now.
Q. Over last summer that was done?
A. On behalf of the lenders.
Q. I beg your pardon?
A. Done on behalf of the prospective lender.

THE COURT: With respect to the January sales projected at $511,000.00, the projection was prepared on January 23rd. What happened in the last week of the month?

THE WITNESS: Your Honor, it may have been prepared earlier. I couldn't tell you when precisely these numbers were created. They were built into this forecast, but I don't think it was significant impact on the bottom line. We had the facility pretty much mothballed for the month.

THE COURT: We're at February 23rd. Do you know the actual sales have been through February?

THE WITNESS: I do not but there -- clearly, we're not -- we're not building the inventories yet, so there's not going to be anything like this. They're probably similar to what January has been.

THE COURT: When you prepared the projection when did

you expect to be building inventories?

THE WITNESS: Well, we built the original plan and this may be the -- we built the original plan in December. We thought we would have worked that contracts by early February and, in fact, it's just taken longer to get people to focus on -

THE COURT: So you don't expect to have contracts in the middle of March; then January, February and March all need to change in this projection.

THE WITNESS: I would say that's what's pretty much reflected in the cash forecast, Your Honor.

MR. CAHN: Your Honor, I have nothing further at this time.

THE COURT: Okay. Anybody else cross-examine? Mr. Strochak?

MR. STROCHAK: Adam Strochak for the debtors, Your Honor.

REDIRECT EXAMINATION

BY MR. STROCHAK:

Q. Mr. Lubin, did you have a conversation with Mr. Altineau from Capital One regarding the February 5th letter that he sent?

A. I did.

Q. What did he say to you and what did you say to him?

MR. BRACHT: Objection. Hearsay, Your Honor.

THE COURT: Overruled. You've opened this topic. Go ahead.

THE WITNESS: Well, he said two things. One is that in his opinion -- and I would stress that his opinion I don't think he necessarily is in the position to speak to the powers of that organization, but in his opinion if we get this transaction -- if we get the preconditions put together after March 15th there's no reason they would not want to entertain looking at this proposal or this exit financing within their parameters.

I also asked him what promoted the letter and his reaction was that he thought a fair chunk of that was related to the fact that they do not like being pulled into litigation. If they're in the lender, they're in the business of making loans, they're not interested in being involved in the fight and spending hours and hours in depositions when all they've done is make proposals.

BY MR. STROCHAK:

Q. Mr. Bracht asked you some questions about the company's historical performance over time year over year declines and EBITDA and sales going back to 1999. Could you tell us in general what are some of the circumstances that have led to declining sales volumes and declining EBITDA at the company over that long period of time?

A. Well, I think there has been for certain a trend in which

our business has been affected by the fact that customers are concerned that such a large supplier of a particular commodity -- and they're worried about our financial condition -- that's has a long-term effect. One of the major factors that affected it was that Delphi in its infinite wisdom made a decision to in source I would say the great bulk of their high volume of connector seals, not just with us but with all their principal suppliers of these commodities. To make them in a facility in Mississippi I think are ill-conceived. I think they did not work well. It's been a tragedy for them like a lot of other things they've done, but basically they in source probably two-thirds of the volume of their business from both us and the other suppliers. We being the largest had the greatest impact and it's what actually drove us to close the LaGrange facility because we could then fit the remaining business into the Vienna facility. I would say it's just been this ongoing issue of you have too much debt. You're in default, you're in forbearance arrangements, and as a result of that we're just nervous about giving you business, even if you were the guy who should have the business.

Q. Apart from Delphi moving or in sourcing a portion of its business were there any other structural changes to the company that, you know, resulted in lower sales volumes over time?

A. Well, we closed the -- we closed one of our two machining operations because a customer that was the principal customer

of the Arizona facility moved its business and, I would say, rather abruptly without any notice. Actually, left us hanging with some inventory. So we closed that. That had a fairly significant impact probably in the range of ten million dollars and then we determined that our die casting business just didn't make sense and we determined to close that as well.

Q. Let me focus for a second on the closure of the metals plant. Were there any particular inefficiencies associated with the closure of that plant and moving remaining business back east?

A. Well, it was very little remaining business. The customer who moved that business moved it to another supplier because they had a contractual arrangement with that supplier to give them a certain amount of volume and when they weren't meeting the volume requirements they were threatened with a lawsuit. They allowed the customer to pick another book of business that would make up the difference. Because it all happened so abruptly it was an expensive proposition to close that plan because it was not planned and they sort of snuck up on us. But beyond that, I think we just had the typical inefficiency of running the plant as you complete your production requirements with relatively low volume in that plant.

Q. Let me direct you, if I could, to Exhibit P in the Committee's large volume.

A. Is that P or T?

Q. P as in Paul. It's the 2007 Form 10K and on Page 23 in particular.
A. Yes, I'm there.
Q. There's a reference in that second-to-last paragraph on the page that I think Mr. Bracht directed you to regarding decreased unit sales of insulators to manufacturers of after-market automotive ignition wire sets. What were the circumstances of that?
A. I-- the customer is Federal Mogul. I think Federal Mogul went through its own Chapter 11 reorganization. I can't place this in time relative to when they came out, but they were under new control and someone took a look at their inventory levels, said this is too high, and determined they were going to reduce that amount and in order to reduce that you either have to sell more or you have to buy less. Since their sales are limited to what their customers want, they had to buy less. They're back to doing ordinary course business, but I think they reduced their inventory by between three quarters of a million to a million dollars. I think that was the entire reduction that year.
Q. To your knowledge did that -- did those circumstances have anything to do with what was going on overall in the after market automotive supply business at the time?
A. I don't believe so. I think that that was a discrete decision by Federal Mogul management to reduce their inventory

levels.

Q. We touched very briefly on the fire at the Rock Hill facility. Could you just provide a, you know, short synopsis of the circumstances of that fire, what happened, and what the company has done to address it?

A. The fire started, I believe, in a piece of ventilating equipment that was in the roof. Some insulation got caught in there and caught fire and it actually destroyed one entire clean room, which is where we produce the parts. It's actually larger. The two clean rooms. We sent a team of people from all our other facilities to that facility to assist in the recovery. We brought the insurance company in very early. They have been funding as we go the reconstruction. They have paid for, for example, moving presses from one building to the other. They paid to prepare the other building, the one that the connector seal business was moved in ultimately, to prepare that to allow us to put the medical molding presses in there because they wanted to reduce their exposure on business interruption coverage. The result of that, I think, was that we didn't have a single customer who had a supply or production disruption. I think they were very pleased with the results. I think it got us an awful lot of PR with the customers because they were able to look at us in a crisis type situation and realized we could support them. We still don't have our full production up yet. We're still missing four large molding

presses because we don't have the capacity to take them. The new building did not have the electrical hookups to support those presses but that is being put in I think by the end -- by the end of next month that will be in, but they're restructuring the clean room in the other building now and we would hope by sometime in April we will have that clean room back. I think overall it's hurt us. It's hurt the P&L. We do expect to make claims for business interruption and they're quite substantial. We haven't sorted how much they're going to be but we have lost a fair amount of production. It hasn't hurt the customer because the customer has an alternative supplier, but obviously it's an expensive proposition to lose half of your production on the very high volume part.

Q. Did you say when the fire occurred? I'm sorry.

A. I believe it's November 19th.

Q. 2008?

A. That's correct.

MR. STROCHAK: Yeah. Thank you, Your Honor. No further questions.

THE COURT: I have some questions. Looking at this Exhibit P at page 23, the table EBITDA is that just for the rubber group or is that the consolidated?

THE WITNESS: That's for the rubber group, Your Honor.

THE COURT: So if you turn back -- I guess it's Page

20 -- it's the page following Page 20 -- there is about two-thirds of the way down there's a line of EBITDA. Is that for the consolidated enterprise?

THE WITNESS: I don't know. That looks like it's a table for the entire company.

THE COURT: Because what I'm -- and if you would look at Exhibit 3, which was in the thin binder that your counsel have -- leave that open there. Keep it open and look at Exhibit 3, which is the 2008 summary. Now, the -- it's actual through October and then forecast for November and December 2008.

THE WITNESS: That's correct, Your Honor.

THE COURT: All right. Do you know what your -- what was the forecast before the start of the year for EBITDA for calendar year 2008?

THE WITNESS: I do not remember, Your Honor.

THE COURT: Do I have any exhibits, Mr. Strochak, that show what -- I mean, what are -- I'll tell you. One of the big issues that is of concern to me is how much cash is being burned over what period of time and, you know, certainly the exhibits that I've reviewed they haven't been introduced yet suggests that the company's forecasts have been way off the mark.

Mr. Lubin's testimony, on the other hand not supported by any exhibits, is that their cash forecasts have

been very accurate. I'm trying to see; do I have some exhibits here that reflect -- that back up the conclusion that their forecasts have been accurate. So I'm looking at Exhibit 3 and excluding the discontinued operations the last two months being forecast, everything else being actual, it showing EBITDA $9,641,000.00. In Exhibit P for 2007 I'm seeing EBITDA of 11 point -- $11,112,000.00. For 2006 it was roughly the same, $11,379,000.00. I'm very interested in knowing what has been happening, how accurate have their forecasts and projections been. Mr. Lubin's testimony of cash forecasts have been very accurate.

On the other hand, Mr. Bracht used the deposition -- Mr. Lubin's deposition to show that from 2003 to 2007 sales in EBITDA declined substantially.

THE WITNESS: Your Honor, your --

THE COURT: I'm at a loss.

THE WITNESS: You're the last person with whom I want to argue with, I assure you, but I think my testimony was not that the cash forecast have been accurate. They were very conservative and we've beaten them by large amounts.

THE COURT: That would make them accurate. Well, it would -- at least the numbers would be at least --

THE WITNESS: No worse than accurate.

THE COURT: They would be no worse than accurate.

MR. STROCHAK: Well, I think I can --

THE COURT: I'm trying to reconcile all this.

MR. STROCHAK: Yeah. I think I can respond to some of your questions, Your Honor.

THE COURT: Do it with testimony because I'd like to hear -- I want to hear what the witness has to say about -- the first question, which I guess you didn't have an answer to, was what was the forecast EBITDA for 2008. Do I have anything that shows that?

THE WITNESS: The forecast for 2008?

THE COURT: 8. Yes. I'm looking at Exhibit 3 which is ten months actual, two months forecast shows the EBITDA for the year of $9,641,000.00 and my question is, you know, I assume that preparing these -- they start preparing forecasts in 2007 for 2008 and I want to know what was the forecast EBITDA for 2008 when it was prepared.

MR. STROCHAK: I'm going to have to back and see if I can answer your question as to the --

THE COURT: Well, I want a witness answer.

MR. STROCHAK: -- 2007 forecast. Yes, Your Honor. I just want to point you -- as a preview, Mr. Welhouse is coming. He's the company's CFO so we anticipated doing some of this through him.

THE COURT: All right. Well, we can wait so you know what I'd like to hear about.

MR. STROCHAK: I do and I can give you a preview by

just kind of showing what we’ve given you in terms of exhibits if --

THE COURT: We’ll wait for Mr. Welhouse, then. Okay.

MR. STROCHAK: Okay.

THE COURT: Any other redirect?

MR. STROCHAK: No, that’s it, Your Honor.

THE COURT: All right. The witness is excused. Thank you, Mr. Lubin.

THE WITNESS: Thank you, Your Honor.

THE COURT: All right. We’re in recess until 1:30.

(Off the record.)

THE COURT: Please be seated. Mr. Strochak?

MR. STROCHAK: I don't see the lender's counsel here. I can check the hall.

THE COURT: Pardon?

MALE SPEAKER: They may be stuck in the elevator. [Inaudible]

MR. STROCHAK: There was quite a line getting in.

THE COURT: Okay.

MR. STROCHAK: I can check the hall, Your Honor.

[Pause in proceedings.]

THE COURT: Okay. Mr. Strochak, why don't you call your next witness?

MR. BRACHT: Excuse me, Your Honor. I did have another question or two for Mr. Lubin.

THE COURT: Okay. Mr. Lubin, can you come back up? You're still under oath.

BY MR. BRACHT:

Q. Mr. Lubin, do you recall in your deposition that I asked you about the Capital One letter that I asked you what prompted that letter, the one from Capital One that was dated February the 5th? Remember we talked about that?

A. I do.

Q. I asked you what prompted that letter and your first answer was, "I would be speculating." Do you recall that?

THE COURT: What page are you?

MR. BRACHT: This is page --

MR. LUBIN: I recall.

THE COURT: No, I'd like to know what page.

MR. LUBIN: Oh, I'm sorry.

MR. BRACHT: Page 150. Actually, it starts at Page 149, Line 25 and it goes on to 150. Let me just put it up on the screen.

Q. I asked you what prompted the letter and you said, "I would be speculating." I invited you to speculate and said, "It might not be admissible but tell me what you think." You said, "My speculation is that in general lenders and prospective lenders like to lend and consider lending, they don't want to be involved in the litigation. I don't think they were the least bit happy to be called in for a lengthy

deposition. You can see from the remarkable response their lawyer submitted to the subpoena that someone at Capital One was very unhappy about this. They didn't even bother to consult with the account officer who was working on it when they submitted their motion to quash. So I don't think they were very happy about that and I think they don't want to be caught in the middle.

Then I asked you, "Were you told that by Capital One?" Your answer was, "No, but that's my speculation as I said."

A. That's correct.

Q. Did I read that correctly, sir?

MR. BRACHT: That's all I have.

THE COURT: Thank you, Mr. Bracht. Okay. Mr. Lubin -- unless Mr. Strochak, do you have any additional questions?

MR. STROCHAK: Nothing further.

THE COURT: Okay. You can step down. Thank you. Your next witness, Mr. Strochak?

MR. STROCHAK: Thank you, Judge. The debtors call Dennis Welhouse.

THE COURT: Raise your right hand, Mr. Welhouse.

(Dennis Welhouse, Debtor's Witness, Sworn.)

THE COURT: Have a seat.

MR. WELHOUSE: Thank you.

DIRECT EXAMINATION

BY MR. STROCHAK:

Q. Mr. Welhouse, let's just see if we can get you oriented. There should be a binder up there with a copy of the debtor's exhibits in it.
A. Okay.
Q. Got it?
A. Yes.
Q. Okay. Turn with me if you would to Debtor's Exhibit 1 which is in evidence. Exhibit 1 is the debtor's cash forecast; correct?
A. Yes, correct.
Q. Well, would you describe for us the process by which the debtors prepared the cash forecast?
A. Basically the cash forecast is prepared from the divisions of each divisional controller, or a responsible person at those locations prepares a form that's very similar to this. Those numbers are rolled together in the corporate office. We infrequently change the numbers that come from the divisions. We do do some reasonableness tests but we often do not change their numbers.
Q. Every time that you do a cash forecast do you base that on a fresh financial forecast?
A. Essentially the cash forecast is based on the facts and circumstances I think that are in existence at that time at each division.
Q. So did you --

THE COURT: I don't think that answered the question, Mr. Welhouse.

Q. Mr. Welhouse, now turn with me if you would to --

THE COURT: Could you -- I'm interested in this. I don't think he answered the question.

MR. STROCHAK: Oh, I'm sorry, Your Honor. I thought you said I thought it did answer the question.

THE COURT: No, I don't think it answered the question.

MR. STROCHAK: That was my impression too but if Your Honor was satisfied.

THE COURT: Okay. No, I'm interested in it but it didn't answer the question.

MR. STROCHAK: I agree with you, Your Honor.

Q. Mr. Welhouse, let me direct you back to --

A. Okay. Like I could tell you that, you know, a new financial projection, you know, for each month of the year for three or four years is not prepared to do a 13 week cash forecast. So you know, though we have to do these every 13 weeks for the secured lender.

Q. How often do you prepare new financial forecasts as opposed to cash forecasts?

A. Well, the financial forecasts have been updated several times in connection with the disclosure statement we first filed in I believe it was August, July or August. We prepared

financial forecasts there which was the initial forecast for the proceedings here. Subsequent to that I think it's been updated two or three times primarily because we received new information from CSN. The CSN data showed that the production of new cars and trucks and like trucks in the United States was continuing to decline. So we were continually sort of updating our projections to reflect those declines in the projections.

Q. Let me turn you, if I could, to Exhibit 4, excuse me, 4, Debtor's Exhibit 4 in evidence. On the fourth page of Debtor's Exhibit 4 is a consolidated monthly statement of cash flow for 2009.

A. Yes.

Q. Just for point of reference let's look at the May number where the forecast for cash on hand at the end of the period was $7.45 million. Are you with me?

A. Yes.

Q. Let's compare that, if you would, with the cash forecast at Exhibit 1.

A. Okay.

Q. Which shows net cash available at 22 May of $1.99 --

A. 994, correct.

Q. -- million, just a hair under $2 million.

A. Correct.

Q. Could you explain how to bridge the difference between the $7.5 million or so in the financial forecast and the $2.0

million on May 22 in the cash budget?

A. Well, there's a couple of things there. On a cash budget, there's a footnote on the bottom that does say at the end of this period we should have a receivable from the insurance company of approximately $412,000.00.

THE COURT: Which document are you looking at?

MR. WELHOUSE: The 13 week cash flow, Your Honor.

THE COURT: Yes.

A. In addition, we have not reflected in the cash flow any potential recoveries as a result of our business interruption claim which we should be making with the insurance company within the next month or two. But the really big change in the 13 week cash flow versus a financial forecast are the change in assumptions that were made regarding the consolidation of the connector seal facility from Vienna, Ohio to Rock Hill, South Carolina and Jasper, Georgia.

Q. Explain for me if you could the specific differences as a result of that consolidation, the difference to the cash flow.

A. There are three or four large items in there. As you know from Mr. Lubin's testimony we were going to bill six months of inventory, now we're billing like three months of inventory, so the sales number declined considerably. In addition to that, we pulled from the second half of 2009 into the first half $568,000.00 of cash relocation expenses. In addition to that, we made a decision in part because we think we'll be done with

this in like May instead of June, some of the cash bonuses of payments will actually get made in the first half of the year versus the second half of the year which is where they were scheduled in what I guess we would call the financial forecast. So I can't remember specifically but I know the cash flow affected the change in sales plus the pull-in of the $568,000.00 of expenses and that totaled I believe around $1.7 or $1.8 change in cash flow --

THE COURT: Can you show me in Exhibit 1 where those expenses that have been moved to the first half of the year where they show up in Exhibit 1?

MR. WELHOUSE: Yes. They're buried in all other excluding KFX, and I can provide you with the detail on those, Your Honor, if you would like later.

Q. Let me see if I can help a little bit here. If I could direct your attention, Mr. Welhouse, to Exhibit 15 --

MR. STROCHAK: Your Honor, we brought a couple of exhibits this morning.

THE COURT: Oh, okay. I have [inaudible].

MR. WELHOUSE: This is a schedule we did to help everyone get from the financial forecast to the 13 week cash flow forecast. You can see at the top there we're showing the sales drop by $2,480,000.00. The next line there that says EBITDA, the EBITDA affected the sales change and the relocation expenses, and let's ignore the hourly, et cetera for now. That

showed up at the bottom and there's a little typo in here. But the effect of the sales change on the relocation expenses we've calculated to be a $1,506,000.00 reduction in cash flow from the financial forecast to this 13 week cash flow forecast.

THE COURT: That's essentially because you moved it up from the second half of the year to the first half of the year?

MR. WELHOUSE: In the first half and the sales have been cut back considerably as well. So there's less --

THE COURT: Because it's three months of inventory as opposed to six?

MR. WELHOUSE: Yes, yes. In addition, the assumptions on the accounts receivable were changed in the financial forecast. If I recall correctly, we assumed we were going to get almost immediate payment. We eliminated that assumption. Payments were going to come in I would say from zero to 15 days. The financial forecast at the Vienna site the receivables are calculated on a net collection of 25 days or so. That's basically assuming zero to five for Delphi which is about 30% of the sales and roughly 30 days for everyone else which we thought was reasonable in the circumstances. But in the financial forecast it was 15 or less. So there's a dramatic difference in the receivables. So the cash flow effect of that is in the 13 week forecast it reduces the collections by $1,197,000.00. Those receivables will collect

out subsequent to May 22nd which is the last week covered in the 13 week cash flow. They're not collected out during that 13 weeks covered by the 13 week cash flow but they will collect out shortly thereafter.

There was also a change in the inventory assumption. The initial inventory assumption, the one built in the financial forecast was they would take all the inventory right away and pay for it. That assumption was changed. What's built into the 13 week forecast is basically at the end of May or on May 22nd or the end of May, half of the product that will be built in June we believe will be on the balance sheet. So the inventory from the financial forecast to the 13 week forecast increases by $866,000.00 and that directly reduces the cash in the 13 week cash flow statement.

The last item here is just the acceleration of one of the incentive bonus payments, the actual cash payment, and that will reduce the cash in the 13 week cash flow by $179,000.00. So these four or five items here, $3.78 million are the lion's share of the difference between what we say is a cash on the balance sheet and the financial forecast and the cash we believe we'll have May 22nd, end of May.

MR. STROCHAK: Your Honor, I move Exhibit 15 into evidence.

MR. BRACHT: No objection, Your Honor.

THE COURT: All right. Exhibit 15 is in evidence.

(Schedule, Debtor's Exhibit 15, Received.)

Q. Mr. Welhouse, what accounts for the rest of the delta between the cash forecasts in Exhibit 1 and the financial forecast in Exhibit 4?

A. To be frank, I didn't have time to do that complete analysis but I suspect that it's just a conservative nature of the divisions.

Q. Let me turn you, if I could, to Exhibit 16, Debtor's Exhibit 16. If you could explain for the Court what Exhibit 16 is? Thank you.

A. Your Honor, this appears to be all of the 13 week cash flows that we've prepared and submitted to the secured lender since the inception of the bankruptcy proceedings.

Q. Looking at the first page of Exhibit 16, the top line of the spreadsheet is actual cash; am I correct? That is the amount of cash that the debtors actually had at the end of that weekly period?

A. Yes.

Q. The 13 week forecasted cash, what does that represent?

A. That would be what we showed to be the forecasted level of cash when we prepared this particular 13 week cash flow.

Q. And are those forecasts, those forecasted numbers, were they created at the beginning of the forecast period?

A. Yes.

Q. Then finally the last line in the table is the difference

between actual and forecast; is that correct?
A. That is correct.
Q. Now, has there been a month during the Chapter 11 cases when the debtor's actual cash was less than the amount forecasted during that period?
A. No.
Q. Let me just direct your attention to again the first page of Exhibit 16 and the April 4 column, the first column on the left. Actual cash was $3.7 million at the end of that week. Just as a frame of reference, what was the debtor's cash position prior to April 4, prior to the commencement of the Chapter 11 case?
A. I do recall that. March 31st I believe we had approximately $370,000.00 of cash.
Q. Now, let me just direct your attention across the actual cash line on Page 1 of Exhibit 16 and actual cash goes from 3.7 the week of April 4 to a high of it looks like 8.4, almost $8.5 million for the week of June 20th. What circumstances explain the increase in actual cash of a little less than $5 million over that period?
A. Several items, but the two large items would be I believe the receipt of the remainder of the DIP funds. I believe on the 4th of April we had $2 million of the $4 million if I remember correctly. Subsequent to that we received $2 million more.

The other large item I believe would be the fact that -- I don't think -- maybe with the exception of Capital's [inaudible] because they directly charge our account, I don't think we paid any reorganization expenses at all during this period of time because we didn't have the monies and frankly because the bills just didn't come in. You'll see one of the reasons [inaudible] --

THE COURT: A [inaudible] is a cash basis, the operating statements --

MR. WELHOUSE: Right.

THE COURT: -- are accrued?

MR. WELHOUSE: That's correct. That's correct, sir. So we did a lot of catch up in terms of payments. I don't have the exact numbers but I know it was probably I would say in August, September, October time frame. We probably paid out close to $2 million in reorganization expenses to catch up back to April 2nd.

Q. Now, let me --

THE COURT: How did you draw the DIP if you didn't [inaudible]?

MR. WELHOUSE: Well, Your Honor, the concept behind the DIP loan I think initially from my perspective was to show the trade, trade suppliers and our customers that we had more than adequate financing in the 11. The DIP funds were deposited in Capital One Bank right here in the city and we

didn't like draw them in the sense that we actually used them.

THE COURT: What was your net cost on that?

MR. WELHOUSE: The documents will show that the interest rate on the DIP funds basically is 10%. There's some lighter issue in there, but basically 10% and Capital One was paying us 3.1%.

THE COURT: Expensive effort to show the trade you had the money.

MR. WELHOUSE: True, but I think it was somewhat successful.

Q. Mr. Welhouse, let me turn you back to Debtor's Exhibit 1. It's the cash forecast. In the cash disbursement section on the column for 6 March there is a projected disbursement of principal to Capital Source in the amount of $269,000.00. What does that represent?

A. The principal, the principal payment on the Capital Source equipment and real estate term loans.

Q. Have the debtors been paying that through the course of the Chapter 11 case?

A. Yes, we've paid that right along. I believe since April 1st I believe we've paid about $3 million in principal to Capital Source.

Q. The next [inaudible] in the spreadsheet, interest 165 at 6 March, is it correct that that represents interest payments to Capital Source and has the debtor been paying notice to the

course of the Chapter 11 case?
A. Yes.
Q. What's the approximate total of interest payments made during the Chapter 11 case if you know?
A. Be a bit of an estimate. I would probably say around $2 million. These loans are tied to Liber [Ph.] and as you all know there's been some fairly wide swings at Liber.
Q. Let me ask you about the other reorganization expenses in the case. Professional fees, what's been the debtor's general prime rate on professional fees through the course of the Chapter 11 case?
A. Throughout the course of the Chapter 11 case, the first nine months we probably averaged about $450,000.00 a month in the first nine months of the year.
Q. Is that on a pay basis or an accrued basis?
A. That would be an accrued basis.
Q. Do you have a rough sense of how much has actually been paid over the course of the case?
A. It would be a bit of a guess. I would say around $3.5 million. We do have a schedule on that in my office but it's not in my computer. I could check quickly for you.
Q. Let me direct your attention down to the net cash available line on Exhibit 1. As the forecast runs out over the 13 week period through the end of May, the 22nd of May, do you believe that the projected net cash available is sufficient to

fund the debtor's operations during that period?
A. I do.
Q. Now, going out I realize the forecast only goes to May 22nd but knowing what you know about the forecast and the financial projection and the current circumstances of the company, what do you foresee happening to cash as the year progresses, as we get out past the end of May?
A. You can see from the chart that in the 3 April -- 10 April area the cash balance tends to level off. Going on past May 22nd we'll receive the $412,000.00 and some amount on the business center option coverage. But I believe the cash beyond that should build because what I'm thinking is that we'll have the connector seal facility closed and that substantial cash drain on the company will end. What we'll then have are two facilities, our facility in Rock Hill, South Carolina that's been a very consistent high cash flow generator as well as our insulator facility at Jasper, Georgia which generated $8 million EBITDA last year, and we have that projected to be slightly higher this year. Those I think consistent cash performers in addition to the cash that will be generated from their production of the connector seal production should provide way more than sufficient cash to operate the corporation.
THE COURT: What's the status of your insurance claim under business interruption insurance?

MR. WELHOUSE: The business interruption claim, the insurance company affiliated, Factory Mutual, has had auditors in and out of our plant examining sales before November, the month the fire took place, and sales subsequent to November. And what they're trying to figure out is what sales, if any, we lost because of the fire which would be the genesis for the business interruption claim. They've told us that they're not going to be finished with that until the end of February. So I suspect that in March we'll sit down. We have made an estimate, Your Honor, with respect to November. We believe that because of the fire we lost $190,000.00 of cash flow and we have a worksheet to show that number which I'd be happy to send to the Court. Whether or not the insurance company will agree that's the business interruption claim remains to be seen. We haven't yet looked at December and January. There may be some business interruption claims in those months as well because some of the presses that were destroyed couldn't come on line fast enough to produce certain parts. For example, we make a very large high volume --

THE COURT: You submitted proof of loss to the insurance company?

MR. WELHOUSE: We haven't submitted proof of loss to them yet on the business interruption claim. We have on the property damage claim.

THE COURT: The same insurer on property and

business; right?

MR. WELHOUSE: Yes, yes. We haven't submitted proof of loss on the business interruption claim.

THE COURT: What's the status on the property damage claim?

MR. WELHOUSE: The property damage is sort of ongoing. Just permit me a little history. The adjuster from Affiliated FM was there like -- I'm not sure while the fire was still raging, but shortly thereafter, and has basically been approving every large expenditure from the beginning. I would say right now we've probably run up cash expenses somewhere in the neighborhood of $600,000.00.

THE COURT: They've been paying on an interim basis --

MR. WELHOUSE: Yes.

THE COURT: -- on the property --

MR. WELHOUSE: Received in advance $500,000.00.

THE COURT: Do they have a specified percentage hold back or what do they -- how do they do it?

MR. WELHOUSE: I can't say they have a specified percentage hold back but I believe that they are holding back a percentage because we've had the $600,000.00 of cash out the door plus we lost $140,000.00 of inventory.

THE COURT: Okay.

MR. WELHOUSE: So that's $740,000.00.

THE COURT: When do you plan to submit a proof of loss with respect to the business interruption claim?

MR. WELHOUSE: Quite frankly, I would like to hear from them first and see what they propose.

THE COURT: Okay. Go ahead, Mr. Strochak.

MR. STROCHAK: Thank you, Your Honor. Before I forget, Your Honor, the debtors move admission of Exhibit 16.

MR. BRACHT: No objection, Your Honor.

THE COURT: Exhibit 16 is in evidence.

(Cash Flows, Debtor's Exhibit 16, Received.)

Q. Mr. Welhouse, turn with me if you would to Exhibit 13.

A. Okay.

Q. Could you describe for us what Exhibit 13 is?

A. Exhibit 13 compares the preliminary actual results for 2008 broken down sort of by product lines within our business and it compares that to the forecast that was used in the initial disclosure statement.

Q. And that's for the July 2008 forecast?

A. Yes.

Q. Let's start at the top of Exhibit 13 on the net sales line. What happened to the insulator business when compared to forecast?

A. Okay. Just going from the top under core businesses, we have our insulator business which is in Jasper, Georgia. The forecast from July 2008 had net sales of $34,201,000.00. The

actual preliminary for the year is $32,313,000.00. We missed the July forecast by $1,888,000.00, 5.5%. That would be, excuse me, Your Honor, that miss there would relate to the small amount of OEM business that's within the insulator business in that facility.

The medical business, you can see the forecast was $16,536,000.00 for the year. We're at $16,299,000.00. We're short by $237,000.00 or 1.4%. So from our perspective our core businesses were $2,125,000.00 off the July forecast or 4.2%.

The other businesses which you all know are primarily OEM automotive businesses, you can see connector seals $17,314,000.00. The figure is $13,890,000.00. They missed by $3.4 million or 20%. The machine which is also primarily an OEM, $11,815,000.00 versus $10,751,000.00 missed by $1.1, only 9%. So the other businesses missed by $4.5 million or 15%. What this chart is designed to show is that the core businesses we feel are essentially on the forecast and we don't contest the fact that the OEM businesses did not get their forecast. We don't know of anyone who has hit their OEM forecast.

Now, the bottom of the page, the other key number is the EBITDA number and for our insulator business we had a forecast of $8.4 million. We came in at $7.9 million. We missed by $453,000.00 or 5.4%.

The medical business, $4,230,000.00. The preliminary unaudited results are $3,937,000.00 for a difference of

$293,000.00.

Now, I did make two adjustments to the medical number. We added back to that the $488,000.00 of fees we paid to DeWolff Boberg. Those were initially included in the corporate office budget but through discussions with our outside external auditors and by reference to SAB 90-7 which is the authoritative language that controls accounting for debtors in bankruptcy, they felt that that was really a charge that should go to the divisions. But I did add it back for this purpose. I also added back the $190,000.00 of cash flow profit and cash flow we felt we lost because of the fire in November. I did not include any estimate for December.

So anyway, in summary, we believe the core businesses were forecasted to come in at 12.6. They came in at 11.9 or short $700,000.00 or 5.8%.

On the OEM businesses, the auto OEM focused businesses, connector seals forecast at $2 million, unaudited results $200,000.00, $1.8 million short, 90%.

The machine business a forecast of 556, a negative cash flow of 253, a shortfall there of $809,000.00. So the other businesses, the OEM focused businesses had a forecast of 2.6, essentially a negative $52,000.00 of cash flow for a miss of $2.6 million. The corporate office numbers are there. It's basically a flush.

So again, our point of this is to show we believe the core

businesses are very stable, very predictable and have not exactly met their forecast but have been reasonably close to their forecast. Again, we do not dispute that the OEM businesses, the automotive OEM businesses have missed their forecasts by a fairly wide margin.

THE COURT: I know you explained it already but just tell me what the add backs you're putting on medical are?

MR. WELHOUSE: Yes. There's two add backs. One is for $488,000.00 and those are the fees we paid consultants.

THE COURT: And have now been charged to reorganization expenses and you put it back in over here?

MR. WELHOUSE: Yeah, we added it back to the EBITDA number.

THE COURT: Okay.

MR. WELHOUSE: Okay. But on a gap basis --

THE COURT: Right.

MR. WELHOUSE: -- it's going to be deducted from the medicals numbers.

THE COURT: Okay.

MR. WELHOUSE: Okay? And the other number I added back was the --

THE COURT: 190.

MR. WELHOUSE: -- profit we thought we lost as a result of the fire.

THE COURT: Okay. All right. I understand. Thank

you.

MR. WELHOUSE: Okay.

Q. Mr. Welhouse, apart from the two adjustments that you described in the medical EBITDA, are there any other adjustments that have been made to the actual reported data here for 2008?

A. Any other adjustments? I don't recall.

MR. STROCHAK: Thank you. Your Honor, we move Exhibit 13.

MR. BRACHT: No objection, Your Honor.

THE COURT: All right. Exhibit 13 is in evidence.

(Chart, Debtor's Exhibit 13, Received.)

Q. Let me just stick with this for one second, Mr. Welhouse. Now, the company also did the forecast prior to July 2008; correct?

A. That's correct.

Q. Now, I know we don't have the data here in front of us but just could you give the Court the general sense as to how the company has performed relative to the earlier forecast that was done for 2008?

A. Sure, but I have to preface it by saying my focus has clearly been on this July forecast and on the disclosure statement and the forecast, the revisions we did because of the change in the CSM data subsequent to July. But I believe if I could pull the forecast numbers from the beginning of the year

from the papers in my office the schedule would look very similar or essentially the core businesses would have performed pretty much on the budget and the OEM businesses would probably have missed by a wide margin.

Q. Mr. Welhouse, the question I asked Mr. Lubin at the end of the morning was on Exhibit 3 which is the 2008 actual 10 month forecast for two months which showed EBITDA for the year of $9,641,000.00 and the question I had for him was how does that figure compare to what you forecast at the end of 2007 for 2008?

A. I don't have those numbers but I suspect it would be considerably lower. I would relate that to the OEM businesses, the connector seal businesses and the machine businesses. My sense is those were probably projected to show reasonably good sales and EBITDA margins. But again, I don't have to belabor what's happened to the OEM automotive markets. I can supply, I will supply those numbers to the Court.

THE COURT: No, I just -- the order of magnitude what you believe you had forecast for the year versus what it -- we don't have the actual, but the last two months forecast, what compares to the $9,641,000.00, your best estimate of what you had projected for the year.

MR. WELHOUSE: It would be a guess, Your Honor.

THE COURT: All right. Go ahead Mr. Strochak.

Q. Mr. Welhouse, let's turn if you would to Exhibit 14. If

you could explain for us what Exhibit 14 is?

A. Okay. Exhibit 14 is similar to the exhibit we just examined except that it shows the forecast for the first -- it's comparing the forecast for the first six months of 2009 to the actual results for the first six months of 2008. Some of the documents submitted by some of the agents for Capital Source there was a suggestion that the forecast for the first six months of 2009 was not accurate. What we're showing here --

THE COURT: Was it just a suggestion? Go ahead.

A. What we're showing here again is on the core businesses the actual for our insulator facility at Jasper, Georgia six months, 6/30/2008, $17,940,000.00. Their forecast for the first six months of '09 is $18,193,000.00, an increase of $253,000.00. At the medical plant on the first six months of last year we did $8,261,000.00. We're now saying $9,378,000.00, an increase of $1,117,000.00 or 13.5%. So we don't see a big swing in those numbers from 2008 from the actual numbers in 2008.

On the other businesses, the auto OEM focus business we're showing an increase in connector seals --

THE COURT: That's because you're loading all the inventory in the first part of the year?

MR. WELHOUSE: Right, right. And this $13,750,000.00, Your Honor, is based on six months of extra

inventory production.

THE COURT: Now you're talking about three months instead of six?

MR. WELHOUSE: Now we're talking about a smaller number, yes. And at the machine facility --

THE COURT: Whatever you move up in the first half of the year you just take out of the second half?

MR. WELHOUSE: That's right. That's correct, that's correct. The connector seals that will not get produced in Vienna, Ohio will be produced in the second half of 2009 at our plant at Rock Hill, South Carolina and the other facility in Jasper, Georgia.

THE COURT: Do you have a projection for total connector seal production for the year?

MR. WELHOUSE: I believe it's $10.5 million.

THE COURT: How can it be $10.5 million if you're projecting $13,750,000.00 for the first half?

MR. WELHOUSE: Well, this was billed for the entire year.

THE COURT: The $13,750,000.00 is billed for the entire year?

MR. WELHOUSE: Yeah. That's what we're going to produce through June.

THE COURT: You think it's actually going to be $10 million?

MR. WELHOUSE: $10.5 to $11 million, yes. But that number includes losing about 20% of the business which I guess maybe we're not going to lose 20% of the business as Mr. Lubin mentioned.

THE COURT: The smaller volume.

MR. WELHOUSE: Yes.

THE COURT: All right.

MR. WELHOUSE: Yes. The EBITDA numbers under the core businesses we did the $4.4 million with insulators in the first six months of '08, we're now projecting $4.2 million, a slight decrease in the first half of $355,000.00. The medical business, $1,896,000.00 versus 2.661 in the second half, an increase of 765, 40% related primarily to the high volume manufacture for Ethicon which is a subsidiary of Johnson & Johnson. Then the OEM businesses, the first half of last year 856 for connector seals. We were projecting $2,783,000.00 assuming we build six months of inventory in the first six months of the year which is like running the plant full throttle for six months. That's changed of course. The machine division we did 268 in the first half last year and we projected 180 this year. So with the exception of the connector seals there will be no other numbers that have now changed. We think the forecast for the first six months of 2009 compared to the first half of 2008 is not unreasonable.

THE COURT: Just tell me again in EBITDA what's the

technologies?

MR. WELHOUSE: Technologies is our mold making and automation facility. It's in North Canton, Ohio. The tooling facility in Jasper -- facilities in Jasper, Georgia; Rock Hill, South Carolina and to date Vienna, Ohio would purchase all of their tooling through Lexington Technologies and also purchase specialized automation equipment that's manufactured in this facility at North Canton, Ohio.

THE COURT: What's the basis for -- I realize it's not a large piece of the total, why the substantial increase in EBITDA for the first half of this year versus last year?

MR. WELHOUSE: From 38 to 122?

THE COURT: Yes.

MR. WELHOUSE: What's happening there is just sort of a mathematical thing. Basically the way the division operates is it bills out its tools and automation equipment at cost. So in theory, they're supposed to break even on the gross profit line. So it's just some items I guess that just didn't zero out in all the calculations. There's no real answer for it.

THE COURT: Go ahead, Mr. Strochak.

MR. STROCHAK: I just ask the Court's indulgence for one minute.

THE COURT: Sure.

MR. STROCHAK: I think I'm fairly close to done. I just want to go over my notes. I don't think I moved Exhibit

14.

THE COURT: You didn't. Hearing no objection, 14 is in evidence.

MR. STROCHAK: That's all I have, Your Honor. I'll pass the witness.

THE COURT: Thank you. Cross examine?

MR. STROCHAK: Thank you for the Court's indulgence.

THE COURT: Cross examination? Do you need any water, Mr. Welhouse?

MR. WELHOUSE: Yes, please. Thanks.

CROSS EXAMINATION

BY MR. BRACHT:

Q. Hi, Mr. Welhouse. I just have a few questions. They mainly center around Exhibit 13. Could we turn to Exhibit 13, please? Exhibit 13 contains a forecast for 2008 that was made in July of 2008; correct?

A. I would say it was probably made at the end of May, June time frame.

Q. Okay.

A. Mid to late June.

Q. Okay. At that point in time you had actual data through the first six months of the year; correct?

A. If I recall correctly, I may be in error, I think that forecast may have included actuals for the first five months. Someone has --

Q. Well, we're going to look at the numbers here and if I've done my math right, which I probably haven't, but we can figure it out. But my point is is that when you're comparing this July 2008 forecast to actual, you've got at least five months, maybe six months in there that you know what the results are; right?

A. That's correct.

Q. Okay. So what we then -- is it safe then to conclude that the miss on the forecast that are shown here, for example, let's just look at the EBITDA number for your core businesses of negative 734, that would indicate that the forecast for the last five to six months in 2008 were responsible -- was missed by that number. So the operations in the last six months of 2008 were responsible for that miss; right?

A. The last six or seven months.

Q. Okay.

A. Correct.

Q. But all that misforecast occurred in that last half of 2008 roughly?

A. Six or seven months; right.

Q. And I think that if you do the math, because you've got on Exhibit 14, you got your actual numbers through June of 2008; right?

A. Yes.

Q. And you look at your core business EBITDA for actual

through June 30, 2008 and that comes to 6.4; right?

THE COURT: Are you on Exhibit 14?

MR. BRACHT: Yes.

A. Right.

Q. Okay.

A. 6.458.

Q. If you compare that to what you had forecasted for 2008 on Exhibit 13 you come to a difference of about sixty-one seventy-five. And then if you --

THE COURT: You've lost me --

MR. BRACHT: Okay.

THE COURT: -- Mr. Bracht.

Q. Let me just ask you this.

THE COURT: I apologize for that.

MR. BRACHT: I apologize, Your Honor.

THE COURT: No, I'm very interested --

MR. BRACHT: I was over on the side trying to do it myself and --

THE COURT: I'm just asking you to go over it one more time.

MR. BRACHT: Okay. All right. All right. If I had a pen I could maybe do it. But let me just put up my notes.

Q. In my scribbling over here on the side, Mr. Welhouse, if you look on the screen you see my calculations there? All right. Let's see if I can get this right. What we're doing is

we're comparing what's on Exhibit 13 and what's on Exhibit 14. Okay?
A. Yes.
Q. So the first thing I did is I took what -- we're just dealing with EBITDA, the core businesses, the subtotal. All right? So the first calculation is you take the forecast on Exhibit 13, 12 thousand --
THE COURT: It's actually $12,633,000.00.
MR. BRACHT: I'm sorry.
THE COURT: That's okay.
MR. BRACHT: It's $12 million. I understand.
Q. $12,633,000.00. All right. And then you flip over to Exhibit 14 and you subtract what you actually did for June compared to the forecast which leaves $6,175,000.00 that needs to be accomplished in the second half of 2008 in order to meet your forecast; right?
A. Mm hm.
Q. Do you agree with me so far?
A. Yes, yes.
Q. Okay. Then you take the 2008 actual number on Exhibit 13. That's $11,899,000.00. See that?
A. Yes.
Q. Okay. And you subtract from that what you actually did and you get $5,441,000.00 and that represents what you actually did in the last six months of 2008; correct?

A. Subtract.

THE COURT: That one you lost me on because you're subtracting the 6 --

MR. WELHOUSE: Same number.

THE COURT: -- 458 which is a first half of the year, not a second half of the year.

MR. BRACHT: That's the actual, right, Your Honor. I misspoke. That's the actual and so if you subtract that from the actual of $11,899,000.00, that leaves what they had to get, or what they did get in the last half of 2008 $5,441,000.00.

THE COURT: What they were short -- that's what you were short for the first half of the year from your forecast?

MR. BRACHT: That actually, Your Honor, that's a comparison of actual to actual. So if you're adding back in the $5,441,000.00 which is what they actually did in the last six months -- and the point is is if you compare that number --

THE COURT: Okay.

MR. BRACHT: -- with what they should have done in the last six months of $6,175,000.00 you get a difference of 734 which is exactly the variance from budget on Page 13, on Exhibit 13.

MR. WELHOUSE: Correct.

Q. You see that?

A. Yes.

Q. So doesn't that indicate that in the last six months of

the year that you missed your budget by $734,000.00?
A. Or 11.5%.
Q. About 11.5% over the last six months as compared to the total of 5.8% which was of course skewed because you had actual results and by definition you couldn't miss your projections for those six months; correct?
A. That's correct but I think the actuals were five months, not six. But I don't disagree with that generally.
Q. Okay. You know, I'm not going to go through it with respect to some of the other numbers in terms of net sales but the same analysis applies; you would agree?
A. I think I would agree. I would like to add that I think an awful lot of it relates to the OEM insulator business that's within our insulator facility in Jasper, Georgia.
Q. I understand, but my point, sir, is that on the six months that you were able to forecast you missed your EBITDA number on your core businesses by somewhere between 11 and 12%; correct?
A. The last six or seven months.
Q. Right.
A. Yes.
Q. Okay. Now, I'm not going to take up a whole lot of more time but the cash, the 13 week cash forecast versus the forecast, what I'm going to call the financial forecast, are you saying that the 13 week cash forecasts are more accurate than the financial forecasts?

A. Well, I think they're more conservative.
Q. More conservative. Well, more conservative because you actually included expenses that you incurred during that period of time?
A. I'm not sure I follow your question.
Q. Well, isn't that what the actual cash forecast for 13 weeks is supposed to try to estimate what your expenses are for that period of time?
A. Yes.
Q. They're more conservative simply because they're smaller than what you forecasted in your financial forecast?
A. Well, there's -- I explained earlier there's a conservative bias at the division level. If you look at the history of our 13 week cash flow projections you can see we've always done considerably better than our 13 week cash flow projections.
THE COURT: Do you prepare monthly variance reports?
MR. WELHOUSE: Against the 13 week cash flow projection?
THE COURT: Well, do you prepare -- well, I'll find out what it's against. Do you prepare variance reports?
MR. WELHOUSE: We do track our performance on the 13 week cash flow projection, our cash receipts and disbursements. We do track that.
Q. My question is really simple. Which forecast of your cash

should we be relying on? Which is more accurate? Can you tell me that?

A. Well, the forecast that's out there now has connector seals with a six month build in it. Okay. So that should be revised to reflect the three month build. I think in my mind, again, the 13 week cash flow forecast that's out there is somewhat conservative and I don't see our available cash going below any of the numbers in the 13 week cash flow forecast.

Q. Okay. Now, the flip side of your 13 week forecast being conservative is that your financial forecasts are maybe a bit optimistic; isn't that true, sir?

A. I can't say they're a bit optimistic because when I think back of how they were prepared -- will they turn out to be exactly as forecast? I don't know. They could be high, they could be low. But we used the best available data, the best and most recent CM data to do the forecast.

Q. There's a big -- in every instance the 13 week cash forecast is lower by a large margin than the financial forecast; correct?

A. Well, I believe that's correct but the actual cash has turned out to be considerably higher than the 13 week cash flow forecast as well.

Q. And that actual cash is what you set forth in which exhibit?

A. I think it's in --

Q. That's in 16?

A. If you go to -- and remember, this is reset at the beginning of every 13 month period so --

THE COURT: 13 week period?

MR. WELHOUSE: 13 week period. So we start out with like zero difference. But right now for February 27th --

THE COURT: You're looking at Exhibit 1?

MR. WELHOUSE: Exhibit 16.

THE COURT: 16? Okay.

MR. WELHOUSE: The week ending February 27th we had projected $2,285,000.00. The actual number is $4,036,000.00

THE COURT: I'm sorry, just --

MR. WELHOUSE: The last page. The last page, Your Honor.

MR. BRACHT: Are you looking --

THE COURT: I'm with you. Go ahead.

Q. Are you looking at what, February 20th?

A. 16, 16. I'm looking at the latest available data that exists and that's 27 February where we projected $2,285,000.00 and the actual number is $4,036,000.00.

Q. Okay. I just -- the reason why I'm confused is because my copy of the exhibit does not contain that $4 million.

A. It's not in here.

Q. Oh, okay. All right.

A. I just got it from my office. I didn't mean to hold you

at a disadvantage.

THE COURT: All right. I want to be clear. The $4 million plus figure is what you believe the February 27th figure in Exhibit 1 will be?

MR. WELHOUSE: I know that's what it is, $4,036,000.00 February 27th.

THE COURT: That's in -- that replaces the $3,708,000.00?

MR. WELHOUSE: On the last page of Tab 16?

THE COURT: No, I was going back to Exhibit 1. I was trying --

MR. WELHOUSE: Okay. I was on Tab 16, the last page of the 13 week cash flow projection that's in effect today, the 27 February.

THE COURT: Yes, $2,285,000.00.

MR. WELHOUSE: Yes. The number that'll fill in above that is $4,036,000.00

THE COURT: Okay. Why is the number on Exhibit 1 through February 27 $3,708,000.00?

MR. WELHOUSE: This was a new forecast that was done I would say the last week of January specifically for submittal to the Courts for purposes of extending our use of the cash collateral.

THE COURT: Exhibit 1, that's what Exhibit 1 is?

MR. WELHOUSE: Yes, yes. Ordinarily under our

arrangements with Capital Source we would not have had to update our 13 week cash flow until just prior to March 20th. We went ahead and we updated the cash flow for that purpose. But technically the cash flow that's in effect is the one under Exhibit 16, the last --

THE COURT: $2,285,000.00?

MR. WELHOUSE: Yes.

THE COURT: All I know is I'm looking at different numbers for everything. I'm having trouble. Your counsel submitted Exhibit 1 as the 13 week cash flow starting with February 27th.

MR. WELHOUSE: Okay.

THE COURT: So you're saying the $3,708,000.00, that's changed. It's $4,036,000.00 which is also different than the February 27th number, the $2,285,000.00. The $2,285,000.00 was from an older 13 week --

MR. WELHOUSE: That's correct. That is correct. The one that would be in effect had we not updated this one just for purposes of the hearing and discussions with Capital Source.

THE COURT: Go ahead, Mr. Bracht.

BY MR. BRACHT:

Q. Just one other point for clarification, Mr. Welhouse. The 11 to 12% shortfall that we discussed, that's with respect to the core businesses; correct?

A. Yes.

MR. BRACHT: I have no further questions, Your Honor.

CROSS EXAMINATION

BY MR. CAHN:

Q. Mr. Welhouse, you testified about the process by which these projections are prepared and I believe you testified that there is basically the same form that we see here in the projections that are submitted to the various divisional heads.

A. Very similar, yes.

Q. They fill that out and they send it back to you? Is that how it works?

A. Pretty much, yes.

Q. Okay. Is there any direction that is given to the people who actually fill out this form as to how they are to go about gathering the information that they use to make their projections?

A. There are instructions given. The instructions are essentially for like the management team to get together, review their sales projections, look at their history, and just to project the cash flow as accurately as they can.

Q. Okay. Do you have any personal knowledge how they actually go about developing their numbers?

A. Some of the numbers are developed using historical relationships related to like future sales projections.

Q. Are you ever called upon by people in the field at the

various facilities to provide guidance on a particular number or a particular figure?

A. I can't say that I haven't been asked to do that. I can't recall any specific instances. The people in the field I would say are relatively experienced people who have done this before.

Q. Okay. But you can't tell us -- and I'm characterizing here so please tell me if I'm wrong. What I'm getting from this is you're not able to tell us with a great deal of certainty as to the precise standards that these people out in the field might use in developing the numbers. What I'm hearing from you is they basically use their experience and some gut feelings and kind of their sense of what's out there is the way they develop these numbers?

A. No. I mentioned they use some historical relationships, material cost as a percent of sales, [unintelligible] percent of sales and those numbers are converted into cash flow and put into the statements. I think that would be a general description of how they do it. Plus any intimate knowledge they might have of the operation.

Q. Your role in this procedure is precisely what?

A. To oversee it and review their numbers.

Q. In what respects do you review the numbers?

A. We have some historical data that we compare it to. We take a look at their sales projections versus the sales

projections we've been given previously to see if we think they generally line up. We look at their disbursements to see if they generally line up or basically reasonable.

Q. If you feel that adjustments are called for, do you consult with the people in the field before making those adjustments?

A. Absolutely.

Q. Are you able to tell us the extent to which the figures that have been presented as part of the forecasts that are already in evidence represent any adjustments suggested by you or mandated by you?

A. I can't think of any adjustments suggested or mandated by me.

Q. Okay. Mr. Welhouse, let me show you what we submitted to the Court as our exhibit, as Capital Source's Exhibit B. I ask you if you recognize it?

A. I do.

THE COURT: Just give me a second. What is that exhibit, sir?

MR. CAHN: [Inaudible].

THE COURT: Just give me a second. All right, I have it.

Q. You're familiar with that certificate, Mr. Welhouse?

A. Yes.

Q. That's your signature at the bottom?

A. Yes.
Q. Can you tell me, if you know the answer to this, do the figures that are provided in that certificate deviate in any way from the figures or from the percentages mandated in the cash collateral order? I'm specifically referring to the net sales line.
A. Yeah, the net sales are 10.6% below the budgeted net sales.
Q. The order does call for a 90% --
A. That's correct.
Q. -- [unintelligible]?
A. That's correct. If I may, could I make a comment?
Q. Sure.
A. The covenant is 90%. I don't deny that. I would like to add that we've also managed to reduce our expenditures by more than the shortfall in sales. If you will look up a few lines on that form, which I don't have anymore -- I didn't mean that in a negative way.

THE COURT: There should be a binder there. You're talking about the certification; right?

MR. WELHOUSE: Yes. About not quite the middle of the page there's a figure there, total cash disbursed against the budget. I think this goes to the management of the divisions or then the corporate officers. In the last column it says actual versus budget. You see we are below budget in

expenditures by $7,911,000.00?

THE COURT: Yes, I see that.

MR. WELHOUSE: Okay. The sales shortfall is $6,875,000.00.

THE COURT: Thank you.

MR. CAHN: Your Honor, may I offer this Exhibit B into evidence?

THE COURT: Yes.

MR. STROCHAK: No objection, Your Honor.

THE COURT: All right. Cap Source Exhibit B is admitted in evidence.

MR. CAHN: Thank you, Your Honor. That's all I have.

THE COURT: I want to come back -- look at Exhibit 1 again if you would. Just give me one second to do a little housekeeping and I'll be right with you; okay? We're only looking at the February 27th column, the first column on Exhibit 1.

MR. WELHOUSE: Okay.

THE COURT: It showed net available cash of $3,703,000.00.

MR. WELHOUSE: Looking at the -- I'm sorry, Your Honor, that would be at the end of the week.

THE COURT: Yes. You say the figure is $4,036,000.00?

MR. WELHOUSE: The figure I gave you, the

$4,036,000.00 is at the beginning of the week. To get the number at the beginning of the week you would need to take the thirty-seven O-eight and add that to cash of 153.

THE COURT: Can you tell me -- what I'm trying to -- what I want to ask you about is what line items changed that reflect the increased cash? I mean I just saw this forecast for the first time last week and I'm trying to understand what's changed that's increased cash by $300,000.00.

MR. WELHOUSE: Okay. Well, it's not quite $300,000.00 because the beginning of the week cash figure is thirty-seven O-eight plus what we -- and that's the number at the end of the week, plus what we used during the week, the 153. So the beginning cash number from like yesterday would be $3,861,000.00.

THE COURT: Yes. Okay.

MR. WELHOUSE: Compared to what the number actually was, the $4,036,000.00.

THE COURT: All right.

MR. WELHOUSE: I can't tell you specifically what that is. I can when I get back to my office. But this was done like the last week in January and it was rolled forward the first, second, and third, and the fourth to get to the 23rd, to get to the hearing date, today. We had to start doing this on January 1st. So I'm not exactly sure which items are over. I'm sure there's some overs and unders all the way down

the line.

THE COURT: I guess the major question I have is I just -- to put it bluntly, have you just not paid some bills so that you wind up with a higher cash amount?

MR. WELHOUSE: I would have to say no to that because of the terms that are imposed on us by the trade. Our biggest supplier, Wacker Silicones, we have 45 day terms with them. We wire them money religiously on the 45th day because we believe those are fantastic terms and we don't want to like do anything to jeopardize those terms. There's a number of other suppliers like that. So I can't say it's -- and I don't know -- there's a lot of -- we have a lot of suppliers so, you know, it's possible it's going on out there. I don't believe any suppliers at all are being pushed.

THE COURT: Is it your testimony that you continue to pay your suppliers in accordance with the historical practices you've been following since you went into Chapter -- filed Chapter 11? I mean I'm just --

MR. WELHOUSE: I would say yes.

THE COURT: I'm just looking at the cash number --

MR. WELHOUSE: I would say yes.

THE COURT: I see cash numbers that go up but --

MR. WELHOUSE: I would say yes.

THE COURT: I need to know whether, you know, why such good fortune?

MR. WELHOUSE: I would say yes other than we have in the 11 been able to get some extended terms from some of our suppliers like [unintelligible] Wacker. I believe with Dow Corning we're at 15 days. Other customers, they've allowed us 30 days. So we pay religiously that on the 30th day because we do not want to lose those terms.

THE COURT: Right.

MR. WELHOUSE: We want to build a base to get even more extended terms if possible.

THE COURT: Okay. Any other direct or cross?

MR. STROCHAK: No further direct, Your Honor.

MR. BRACHT: Nothing further, Your Honor.

THE COURT: All right. Mr. Welhouse, you're excused. Thank you very much.

MR. WELHOUSE: Thank you.

MR. STROCHAK: Adam Strochak for the debtors. We call Andre Ougier.

THE COURT: All right. Before Mr. Ougier comes up, let's just take a very short recess. We'll take a ten minute recess now. I should alert you all that a large class of Columbia Law School students are coming. Oh, Fordham, excuse me. Fordham Law School students will be descending on the courtroom at some point in a while just observing. As a result, we're probably going to stop the testimony at 4:45 rather than 5:00. We're going to meet the students. Okay?

MR. STROCHAK: Just for planning purposes, Your Honor, Mr. Augier is our last witness.

THE COURT: Okay. All right. So we'll just take a short break.

[Off the record.]

THE COURT: All right. Mr. Strochak, call your next witness.

MR. STROCHAK: Thank you, Your Honor. We call Mr. Augier.

(Andre Augier, Debtor's Witness, Sworn.)

THE COURT: Please have a seat. Could you spell your last name?

THE WITNESS: Yes. It's spelled A-U-G-I-E-R.

THE COURT: Thank you.

MR. STROCHAK: Good afternoon, Mr. Augier.

Just to orient you if you could locate the debtor's exhibit binder and if you'd turn to Tab 12, you'll find a copy of your report.

THE WITNESS: I have it.

MR. STROCHAK: Thank you.

DIRECT EXAMINATION

BY MR. STROCHAK:

Q. Mr. Augier, I know you're with W.Y. Campbell, the debtor's financial advisors. Would you tell us what position you hold

with Campbell?
A. I'm a managing director with Campbell & Company.
Q. What are your responsibilities as managing director?
A. They're severalfold; I am responsible for leading certain transactions, I am a principal, one of the original founders in the firm so I have some oversight for the firm as a whole and an oversight for more or less day-to-day operations.
Q. Would you explain for the Court -- does W.Y. Campbell have any particular specialty?
A. W.Y. Campbell & Company specializes in what we'll refer to middle market investment banking; we focus on advising clients that are in the process of contemplating a transaction somewhere in between -- call it 25 and 350/400 million.
Q. Are there any particular industries on which W.Y. Campbell focuses?
A. The preponderance of our work -- eighty percent of the transactions and situations that we work on are with industrial customers. We have -- because of our location in Detroit -- grown to be the largest M&A adviser within the automotive sector, again, within the middle market.
Q. What's your personal educational and professional background?
A. I have an undergraduate degree from Michigan State University in finance and I have a masters of science and finance from Moss College.

Q. Have you done valuation work in the past?
A. Extensively.
Q. About how many valuations have you performed just in terms of a rough estimate?
A. I've done hundreds of M&A transactions in my career. Every M&A transaction involves one or several valuations throughout its course so many, many.
Q. Have you previously testified about valuation issues?
A. I have.
Q. Could you explain for us the services that W.Y. Campbell has provided to the debtors both pre-petition and post-petition?
A. On a pre-petition basis we were retained by the debtor to in essence sell all or parts of the rubber group. On a post-petition basis we've assisted the debtor on numerous fronts, primarily valuation of all and pieces of the business.
Q. How long have you been working with the company overall?
A. Two years.
Q. Have you done anything to familiarize yourself with the debtor's operations?
A. We have spent extensive time at each and every location, have spent a significant amount of time with management including Mr. Welhouse and Mr. Lubin and Mr. Delano, feel we've got a very good handle on the business itself and how it's positioned in each of its industries.

Q. Let me ask you about the report that's Exhibit 12. What was Campbell asked to do in preparing Exhibit 12?
A. With respect to this specific report we were asked to provide value in the context of cash collateral and decided that what was most appropo was to look at the core businesses and in essence focus on those and their value.
Q. Is this the first time that you performed a valuation of the debtors?
A. It is not.
Q. What was the first time?
A. The first time, I'd say, four or five months ago we valued the entire company.
Q. I'm sorry, four or five months ago?
A. We valuated the entire company.
Q. That was in connection with the preparation of the disclosure statement initially last summer?
A. Exactly. Correct.
Q. Are you prepared today to offer an opinion on the value of the debtors?
A. I am.

MR. STROCHAK: Your Honor, we move that Mr. Augier be qualified as an expert witness under Rule 702 on valuation.

MR. BRACHT: Your Honor, I have an objection. I'd appreciate taking the witness on voir dire for a few minutes?

THE COURT: Go ahead, Mr. Bracht.

MR. BRACHT: Jerry Bracht for the committee.

VOIR DIRE EXAMINATION

BY MR. BRACHT:

Q. Mr. Augier, was this report -- Exhibit 12 -- was it prepared pursuant to the Uniform Standards of Professional Appraisal Practice?

A. I don't know the answer to that.

Q. Are you familiar with the Uniform Standards of Professional Appraisal Practice?

A. I am, not to the letter, but I am familiar with its content.

Q. Are you a member of the American Society of Appraisers?

A. I am not.

Q. Are you an accredited senior appraiser?

A. I am not.

Q. Are you a member of the Institute of Business Appraisers?

A. I am not.

Q. Are you a CPA?

A. I am not.

Q. Have you been accredited in business valuation?

A. I have not.

Q. Have not?

A. No.

Q. How many opinions on enterprise value have you given in contested proceedings like this one?

A. Throughout my career, I don't recall but --
Q. I'm talking about in court under oath.
A. Yes. Two or three.
Q. Are those listed in the report under your qualifications?
A. They are not.
Q. Why aren't they?
A. Because this was over a certain period of time.
Q. I see. The only two you listed were the one where I took your video deposition early, early in the case --
A. Correct.
Q. -- and then also apparently an arbitration in which W.Y. Campbell was a party?
A. Correct.
Q. The methodology that you've used in the report you have not calculated value on a comparable company basis. Is that true?
A. That's correct.
Q. You have not used the discounted cash flow basis with respect to your report -- Exhibit 12?
A. Correct. Intentionally.
Q. You've calculated value based on a comparable transactional basis based on transactions that are no earlier than some time in 2006. Is that correct?
A. We used all the data that was readily available; correct.
Q. But no transaction earlier than 2006 with respect to the

insulator business?
A. Specifically, with respect to insulator I think you're correct.
Q. Did you write the report -- Exhibit 12?
A. Parts of it.
Q. In terms of the data that's contained in the report you did not independently verify or express any opinion with respect to management's projections or the reasonableness of management's assumptions in connection with estimating the enterprise value; correct?
A. I think your question did we --
THE COURT: You want the question again?
THE WITNESS: Yes. Did we review management's projections or did we --
THE COURT: Go ahead, Mr. Bracht.
BY MR. BRACHT:
Q. No. My question is it is true, isn't it, sir, that Campbell did not independently verify or express any opinion with respect to management's projections or the reasonableness of management's assumptions in connection with estimating the enterprise value?
A. That's correct.
Q. Isn't it true, Mr. Augier, that Campbell relied upon and assumed without independent verification the accuracy and completeness of the financial and other information provided to

or discussed with it by Lexington or attained by it from public sources?

Q. Correct.

MR. BRACHT: Your Honor, I object to Mr. Augier as an expert. I don't believe he's qualified. His testimony is not relevant because he's not qualified. It's also not reliable given the fact that he hasn't tested the underlying data and I think under the Daubert standards he's not qualified as an expert witness.

THE COURT: Mr. Strochak, do you want to be heard?

MR. STROCHAK: Thank you, Your Honor. We submit Mr. Augier is well qualified. He's an investment banker, he has worked on hundreds of M&A transactions, rendered valuations in those contexts. He has the necessary skill and expertise to render an opinion on valuation. The other points that Mr. Bracht makes go to the weight of any valuation testimony. If Mr. Bracht believes that he left out a methodology we're perfectly prepared and will be explaining exactly what Mr. Augier did and why he did it but anything else goes to weight.

THE COURT: The objection is sustained. The testimony is excluded.

When I read the report it was quite clear to me that Mr. Augier and W.Y. Campbell did not review or express an opinion about management's projections that are essential to the valuation report. You can take any numbers, plug them into

a formula -- he essentially determined comparables which Mr. Bracht contests whether they're comparable but he essentially determined a multiple based on prior transactions and took the debtor's projections for EBITDA without verifying or testing the numbers. That is not an opinion as to value. The objection is sustained.

MR. STROCHAK: Your Honor, respectfully --

THE COURT: I don't want to hear any argument, Mr. Strochak. The objection is sustained.

MR. STROCHAK: Well, could I make a proffer, Your Honor, as to what we believe the testimony would show?

THE COURT: You can make your proffer. I assume that the proffer is what's in the report?

MR. STROCHAK: It is, Your Honor, and I just feel the need to clarify.

Mr. Augier's testimony would relate to trailing EBITDA numbers as opposed to projections, therefore, it's not necessary that he analyze the debtor's projections on a going forward basis. The idea is that he looked at, historically, what the debtors had actually done and worked from the actual numbers with certain adjustments that, of course, we're prepared to explain but that is the fundamental basis of the valuation work that he did, it's based on trailing numbers as opposed to forward-looking numbers.

THE COURT: Mr. Bracht, do you want to be heard

further?

MR. BRACHT: Your Honor, just a point that I think is pretty well-established that multiples are determined based on numbers going forward and not backwards. So he could not have arrived at a multiple without relying at least in some respect on the projections going forward if that's the point.

THE COURT: The pre-petition lenders report has figures for total enterprise value based on trailing twelve month figures as well so I mean that's nothing unusual about that methodology.

MR. BRACHT: No, I understand that, Your Honor, but the multiple that you apply to that number is a multiple that has got to be based on what's going on in the market at a particular point in time or which is influenced by the projections and how those projections are coming to fruition.

THE COURT: The objection is sustained. I reviewed the report carefully and I believe the report makes clear that it is not competent evidence of the value.

Do you have any questions for this witness that don't call for his expert opinion?

MR. STROCHAK: Only about the report, Your Honor, and I can lay a foundation --

THE COURT: If you want to lay a foundation -- I'll permit you a proffer or to lay a further foundation but based on the voir dire of Mr. Bracht and based on my review of the

report in preparing for the hearing this report is not competent evidence of value.

MR. STROCHAK: Well, if permitted I would like to lay that foundation, Your Honor.

THE COURT: Why don't you just make a proffer of what it is that you would endeavor to show.

MR. STROCHAK: Your Honor -- and I can direct your attention to Page 19 of Exhibit 12 and there's a summary at the top of the page. It says, "In calculating the value of the core assets using the precedent M&A transaction valuation methodology Campbell derived an enterprise value to EBITDA ratio to be applied to the core assets pro forma 2008 results by starting with the valuation multiples presented above" and it goes on. I think that synthesizes the methodology with respect to the precedent M&A transaction valuation method, that it is a derivation of a multiple based on comparable transactions and then comparing that multiple with the multiple on precedent transactions is derivative of trailing EBITDA and then once that multiple is derived, then applying that to the debtor's trailing 2008 EBITDA which as the Court has heard today in testimony are actual numbers.

Now, obviously, there are certain adjustments that Mr. Augier could testify to with respect to certain of the businesses but that is the fundamental methodology as to apply that multiple to trailing EBITDA.

With respect to the second valuation methodology that Mr. Augier used, what he calls the sum of the parts valuation methodology, that's on Page 21 of Exhibit 12. Again, reading from the middle of the page it says, "In calculating the enterprise value of the core assets using the sum of the parts valuation methodology Campbell derived a value for each of the operating facilities on the assumption that each facility was sold to a separate buyer on the following basis" and then Point 1 is the 2008 pro forma EBITDA of each facility was adjusted. So it goes through the adjustments and makes it clear that the methodology used is to derive a trailing EBITDA number for the sum of the parts valuation and then apply that to the debtor's trailing EBITDA.

THE COURT: Just to make clear the basis for the Court's ruling in addition to the objections raised by Mr. Bracht, the Court refers to Page 4 of Exhibit 12. I won't read specifically the first two paragraphs on Page 4 where Mr. Augier and W.Y. Campbell make clear that they've "relied upon and assumed without independent verification the accuracy and completeness of the financial and other information provided" and it goes on from there in the next sentence, "with respect to the projected financial statements Campbell has relied upon the assurances of senior management of Lexington and the projected financial statements were reasonably prepared" and it goes on.

I have never either as a practicing lawyer, Mr. Strochak, or since I've been on the bench -- as a practicing lawyer not tendered an expert witness in valuation who hasn't independently reviewed and stated his opinion as to the basis for reliance on the company's financial statements and there's none of that.

The objection of Mr. Bracht is sustained.

This is the same problem -- when I heard W.Y. Campbell months ago testify you're putting up people to take numbers given to them by management and you're asking just assume those to be true, make no effort to verify it, don't do anything but use those numbers and you tell me what you think this company is worth. That's not what a valuation expert does. It doesn't satisfy the Professional Standards for valuation testimony. The objection is sustained.

Do you have another witness?

MR. STROCHAK: That's our final witness, Your Honor.

THE COURT: All right. Do you rest?

MR. STROCHAK: We have a couple of exhibits to move, Your Honor.

THE COURT: You can step down.

MR. STROCHAK: Debtor's Exhibits 6, 7 and 8, Your Honor, are monthly operating reports in the docket. We'd ask the Court to take judicial notice of those.

THE COURT: Any objections?

MR. BRACHT: We have no objection, Your Honor, to 6, 7 and 8.

(Debtor's Exhibit Nos. 6, 7 and 8, Received.)

THE COURT: All right. Exhibits 6, 7 and 8 are admitted into evidence.

MR. STROCHAK: Exhibit 11 is the debtor's liquidation analysis from the disclosure statement, again, a matter of record and filed with the disclosure statement. We offer that.

MR. BRACHT: We don't agree with it, Your Honor, but we don't have any objection to the admission.

(Debtor's Exhibit No. 11, Received.)

THE COURT: Hearing no objection, Exhibit 11 is in evidence.

MR. STROCHAK: Your Honor, in light of the Court's ruling on valuation would the Court permit us to take a five or ten minute recess? I'd like to speak with my client and just take stock of where things stand and see if we have anything else to put on.

THE COURT: All right. It's 3:21. We'll resume at 3:30.

MR. STROCHAK: Thank you, Your Honor.

[Recess.]

THE COURT: Please be seated.

Mr. Strochak, any further witnesses?

MR. STROCHAK: Thank you, Judge. Yes. I appreciate

the Court's indulgence.

We do want to call Mr. Augier to testify on matters on which he does not need to be qualified as an expert witness as the debtor's financial advisor.

THE COURT: All right. Go ahead.

DIRECT EXAMINATION CONTINUED

BY MR. STROCHAK:

Q. Mr. Augier, were you involved in the debtor's efforts to settle its medical business prior to the Chapter 11 case?

A. I was. I led that process.

Q. Could you describe for the Court what was the result of that process?

A. The result of that process was we ended up with two offers that were worthy of consideration and the board spent significant time analyzing and discussing it.

Q. Were there any specific dollar value offers made for the business?

A. We received an offer for $32 million for medical.

Q. From whom?

A. Trellerborg.

Q. What's Trellerborg?

A. Trellerborg is a Swedish-based conglomerate with extensive --

THE COURT: Could you spell that?

THE WITNESS: T-R-E-L-L-E-R-B-O-R-G.

THE COURT: I'm sorry. I interrupted. I apologize.
THE WITNESS: Not at all.
BY MR. STROCHAK:
Q. Yes. I wasn't sure if your answer was finished.
A. They're a sizeable Swedish conglomerate with extensive investments in sophisticated rubber molding in a variety of industries.
Q. Mr. Augier, have you become familiar with the debtor's rubber business during the course of your work?
A. Very much so.
Q. Are there any particular characteristics of the debtor's business that distinguish it in any way from other companies in the industry?
A. I feel, personally -- we feel as a firm that the debtor's rubber business is extremely unique both in the medical front and in the automotive front.
Q. How is it unique in the medical area?
A. It's unique from the standpoint that its product are extremely proprietary, garner significant margins because of their proprietary nature and in essence their manufacturing capabilities through their flashless molding are virtually impossible to duplicate.
Q. And with respect to the other lines of business?
A. Clearly, the metals group and the connector seals group, although connector seals possesses the similar capabilities and

significant pressures from OE builds it had impact to the values of those businesses.

Q. What about the particular technologies they used in those lines? Is there anything unique about them?

A. Connector seals utilizes the same flashless molding technology which is, again, extremely hard to duplicate. The metals group is a machine group and although the metals machines parts to some fairly close tolerances there are a number of other participants in the industry that have similar capabilities.

Q. With respect to your overall assessment of what's going on in the marketplace for rubber industry transactions do you believe that there would be significant interest in the debtor's business on a going forward basis looking out over the next six months to a year?

A. I do. I think the company's entities are, again, extremely unique and hard to duplicate.

Q. What's the basis for your conclusions? What are you seeing going on in the rubber industry that leads you to those conclusions?

A. Well, I've got a long resume in the rubber industry and currently there is a gravitation towards quality, highly engineered type products and, clearly, everything that Lexington does reflects that

Q. As an investment banker in this industry do you believe

that a market test of the value of the assets is a wise thing to do in terms of maximizing the value in any sale transaction?

A. It's my opinion that every time you go out into the street under a "market test" you risk doing the business harm from a customer standpoint, from an employee standpoint and an overall management focus as well, I think, under proceedings such as these you're leaving a record that that's exactly what you're going to do is test the marketplace and buyers will not be as serious as they otherwise might be.

Q. Do you believe that the best way to maximize the value of the debtor's medical business is to put it up for sale at this time in the context of a Chapter 11 case?

A. I do not. I do not believe that it would maximize value.

Q. Why?

A. Having marketed this business and others in what we'll call a distressed environment, buyers are very reluctant to put their best foot forward, are eager to get their pound of flesh and as a result typically do not maximize value in that scenario.

MR. STROCHAK: Thank you, Your Honor. No further questions.

THE COURT: Cross-examination?

MR. BRACHT: I have no questions, Your Honor.

THE COURT: Thank you, Mr. Bracht.

Mr. Tishler?

MR. TISHLER: Mr. Augier, my name is John Tishler. I represent the senior lenders, Capital Source, in this matter. I've got a couple of questions to ask you.

CROSS EXAMINATION

BY MR. TISHLER:

Q. Can you describe a little bit more about your sales process pre-petition as to medical? What did you do to develop your sources and the two buyers that you mentioned earlier?

A. Pre-petition we put together an offering memorandum describing the entire rubber group and in a very detailed, narrative sense allowed buyers to gain a clear understanding of each of the divisions. We distributed that offering memorandum to parties who had signed the confidentiality agreement. That particular list, we derived from our own internal data bases and parties that we've spoken to in prior transactions having to do with rubber molding and in outside data bases to flesh out the group.

Q. So you came up with two buyers did you say?

A. That's correct.

Q. One was Trellerborg for around $32 million but who was the second? I guess I didn't catch that.

A. Could I ask Mr. Strochak if I'm --

Q. If you don't know you just say "I don't know."

A. I do know I just don't know whether --

THE COURT: Is there an issue about confidentiality,

Mr. Strochak?

MR. STROCHAK: I just don't know at this point.

BY MR. TISHLER:

Q. How about if we leave the name out and just give me the price they're willing to pay and if there was anything distinguishing about them from Trellerborg?

A. I don't specifically remember the price. We spent a lot of time fleshing out the Trellerborg offer but it was --

THE COURT: Was it lower than the Trellerborg offer?

THE WITNESS: I don't recall at this stage. Again, we focused significantly on Trellerborg after a period of time.

BY MR. TISHLER:

Q. Mr. Augier, let me ask you, hypothetically, if this company very suddenly or very precipitously had a continuation of a downturn of its business and it lost its cash cushion would your recommendation be at that point to sell some aspects of the business?

A. Would it be my recommendation if the entire company -- could you rephrase your question, please?

Q. Sure. If the company, let's just say it got to zero and had no money in the bank what would its options be at this point?

A. Its options would clearly be to divest of certain operating entities.

Q. So would one of those entities be the medical device business?
A. Potentially.
Q. How would you recommend to all the creditor constituencies that process be run?
A. How would I recommend that the process be run?
Q. Yes.
A. To contact a select number of medical industry participants and what I mean by that is not a small number but a meaningful enough number to create a competitive process.
Q. Have you already reached out to any of those bidders or interested parties in the medical device business to check on their interest in buying the medical device business?
A. I have not.
Q. Is it your sense that the $32 million, would that as a potential number to sell that business would that be roughly what it would bring in today or would it be higher or lower?
A. I think that number would be significantly exceeded.
Q. Be significantly what?
A. Exceeded.
Q. So it would be larger than $32 million?
A. Yes, sir.
MR. TISHLER: That's all I have.
THE COURT: Thank you, Mr. Tishler. Anyone else? Mr. Strochak?

MR. STROCHAK: No redirect, Your Honor.

MR. BRACHT: Nothing, Your Honor.

THE COURT: All right. You're excused, Mr. Augier.

Any other witnesses, Mr. Strochak?

MR. STROCHAK: That's all, Your Honor. The debtors rest.

THE COURT: All right. Is Cap Source or the committee going?

MR. TISHLER: We are, Your Honor.

Your Honor, Capital Source will call only one witness and that is Dean Vomero of Bridge.

As Mr. Vomero is walking up here, I'm not sure that the Court received some of the demonstrative exhibits we sent around to all the parties. I have copies of that if you will indulge me.

THE COURT: Sure.

(Dean Vomero, PSL's Witness, Sworn.)

MR. TISHLER: Your Honor, these demonstrative exhibits essentially summarize Mr. Vomero's report and I thought it might expedite getting through the report.

DIRECT EXAMINATION

BY MR. TISHLER:

Q. Mr. Vomero, would you state the company that you work with?

A. Bridge Associates.

Q. Can you tell us about your involvement in this particular case?

A. In the fall of 2006 I was engaged by Waller to perform an assessment of the debtor's business which I delivered in January of 2007 and since then I've monitored -- well, as part of that assessment I spent an extensive amount of time with management and reviewed a significant amount of financial and forecast information, visited all the facilities, wrote a report and I've followed Lexington on a monthly basis ever since that point.

Q. Have you also visited the facilities at some point?

A. Yes, during that process I have and I've been to a few other facilities in the interim.

Q. Can you give the Court a little background as to your own personal background in the auto industry?

A. Sure. My last auto assignment I was chief restructuring officer of Parts Depot which was a fairly large auto parts distributor. Prior to that I wrote an expert report in the Collins & Aikman bankruptcy on solvency. I was an expert witness in the Telrod Automotive case on financial and operational restructuring. I was vice president of strategy and development for Tier 1, a metal fabrication type company. I also did a number of strategy and operation works in the automotive industry prior to that.

Q. Your other qualifications are attached to your expert

report, I believe. Is that correct?
A. That's correct.
MR. TISHLER: Your Honor, previously before the hearing the debtors and Capital Source stipulated that Mr. Vomero would be treated as an expert so we're going to proffer him at this time as an expert.
THE COURT: Hearing no objection --
MR. STROCHAK: Just a second, Your Honor, I'm sorry. I'd like a proffer as to what topics he's going to be qualified as an expert. Is it a valuation issue?
MR. TISHLER: Yes. We're going to take him through the enterprise value methodology that he used in his expert report and also he will testify as to the debtor's financial ability to project and so forth.
MR. STROCHAK: Your Honor, with respect to the basis on your ruling with respect to Mr. Augier, we think that, respectfully, there are the same problems with Mr. Vomero.
Now, I have to say, Your Honor, I disagree with your conclusion as you know and I'm not trying to reargue that.
THE COURT: Then don't.
MR. STROCHAK: But I think the point is that unless there's the same foundation then --
THE COURT: Do you want to take the witness on voir dire?
I read this report cover-to-cover, I read the other

report cover-to-cover, they're not in the same ball park but if you want to take the witness on voir dire, please, go ahead and do it.

MR. STROCHAK: Your Honor, actually, I'm going to withdraw the objection. We'll stipulate to the qualification, Your Honor.

THE COURT: All right. The Court will permit Mr. Vomero to testify as an expert.

MR. TISHLER: Thank you, Your Honor.

BY MR. TISHLER:

Q. Mr. Vomero, do you get data from the company that has helped you put together your expert witness report?

A. Yes, I have. I have gotten financial projections and a fair amount of detail and I've also received monthly financial reports, director reports every month for the last couple of years.

Q. In addition to taking their data what other efforts did you undertake the verify the accuracy of their data?

A. In terms of their financial information?

Q. Yes.

A. We did a significant amount of analytical work in terms of looking at your changes in the business, looking at budget to actual. We did a correlation analysis to the debtor's earnings relative to GDP changes. We also have looked at some of the big three -- Merth/American/Autobuild data -- in reaching our

conclusions. That's over the years the work I've done.

Q. Mr. Vomero, there should be over there a list of our witness and exhibit list. It's not the bound volume, it should be the one with the big clip on it?

MR. TISHLER: Your Honor, we're referring to from here on out PSLA which is the expert report.

THE COURT: Yes, I have it open in front of me.

BY MR. TISHLER:

Q. Mr. Vomero, would you mind just giving the Court a high level summary of what your expert report concluded?

A. I'll start with the engagement. We were engaged to do three things; we were engaged to assess the current financial position of the debtor -- performance, we were engaged to look at the collateral position and then we were engaged to determine what the changes in the debtor's TEV since the beginning of this case.

THE COURT: I'm sorry changes in what?

THE WITNESS: I'm sorry, Total Enterprise Value, TEV.

THE COURT: Thank you.

BY MR. TISHLER:

A. So that's in general the engagement and our conclusion is there's been a substantial deterioration in the cash position in particular in 2009. We've seen a pretty stark decrease. There's also been a deterioration in the overall business financially and we've also seen a deterioration in TEV. We

looked at this and said if you look at the current trend today -- right where we are today and what's been happening over the last three or four months it seems to make sense to put a natural hedge in this business to protect the risk because the business could be out of cash this summer or at some point in the future and given the amount of cushion we have it just makes sense to at least start a process and do something versus doing nothing later.
Q. By "start a process" you mean explore the sale of some assets --
A. Yes, exploration of a sale and to begin that process sooner rather than later.
Q. Mr. Vomero, there are a couple of clarification points that you wanted us to point out. I believe in your report you refer to the financial information that you had received. It was dated 1/16 and it should be 1/23?
A. Well, that's when I received it. There's just a little discrepancy, I think, in projections. The debtors were using what we analyzed but they weren't material.
THE COURT: If you're changing something in the report can you point out to me what it is you wanted --
THE WITNESS: No, we're not going to change anything. I think the financial projections that were admitted were a little bit different than what we worked with. So just some minor versions.

THE COURT: All right.

BY MR. TISHLER:

Q. This might not be material but the trailing EBITDA, I think you had in there it was down 26 percent but it should be 25 percent?

A. No, it was the total enterprise value and there was a slight change, I think, from 28 or 26 to 25.

Q. All right. When we get to it in the slides we'll talk about that.

A. Yes. As we QC'd the work we found the mistake.

Q. If you'll take a look at the slides, we'll walk through those for a second. If you could, Mr. Vomero, take a look at the first one and then describe to the Court --

THE COURT: Mr. Tishler, are you going to mark the slides as exhibits?

MR. TISHLER: I will, Your Honor, I think that's a great idea.

THE COURT: Why don't you just mark it for identification now. Are you going to mark them separately or as one --

MR. TISHLER: We can just add it on as PSL-F if that works?

THE COURT: All right. I've been handed six pages of slides; the first is headed "At the current cash burn rate of approximately $1 million --

THE WITNESS: Your Honor, I have an extra copy.

(PSL Exhibit F, Marked.)

THE COURT: No, I have a copy. I just want to make sure I'm identifying for the record what's been marked as PSL Exhibit F. We're all in sync, Mr. Tishler?

MR. TISHLER: That's it, Your Honor. Thank you.

THE COURT: Go ahead.

BY MR. TISHLER:

Q. Mr. Vomero, you want to walk us through what the first slide is showing us?

A. Sure. All we did in this slide is took the actual cash balance at various points in time and the important point from this slide is since December 31st of this year the debtor had $5.5 million in cash, right now they have $4 million and that's a burn rate of roughly $1 million a month. The forecast -- and this is the B13 forecast -- is right now at $2 million and although Dennis has clearly been conservative on his estimates of that number but, directionally, the cash is moving in the wrong direction and especially since the beginning of the year and as a result, again, we think we need a natural hedge in this business or some efforts to begin a marketing process.

Q. Mr. Vomero, when you talk about Mr. Welhouse's projections on cash you do agree with the debtors that he has typically been on target or even below target, I guess, in a good way. He's obviously been to the good side. He's usually projected

less cash and the company has outperformed that projection?

A. That's correct and I think he's about $1.2 million above his projection currently and that's been a decent estimate over time.

Q. But included in those amounts that are shown in cash is $4 million from the subordinate DIP. Is that correct?

A. That's correct.

Q. So at this point because they're roughly at $4 million in cash, what's in their bank account is the DIP. Is that correct?

A. That's correct.

Q. Is there any other liquidity this company has other than that DIP?

A. None that I'm aware of.

Q. Of course, unless there are --

A. Right. I don't know of any other source.

Q. Other than the DIP that's the only source of liquidity that they have other than their own cash flow?

A. That's the only source I'm aware of.

Q. Since, you say, June 30, 2008 through February 13, 2009 they've burned cash at a rate of $600,000.00 per month. Is that correct?

A. That's correct.

Q. So if the Court was to extend the use of cash collateral for five more months based on that cash burn if they were

unable to turn it around they'd only have about $1 million of cash in the bank at the end of July. Is that about right?

A. That's about right.

Q. Is there anything else you wanted to go over on that first slide?

A. No, that's fine.

MR. TISHLER: You'll turn to the second page, Your Honor.

BY MR. TISHLER:

A. With this slide, when we looked at the current cash burn -- you look out thirteen weeks, there's been clearly over-conservatism in the thirteen week cash flow. What happens after that point has been a real issue in terms of estimating what is going on with the debtors. What we did is we looked at -- and we've been tracking their historical forecast accuracy and this adds an element of significant risk to the projections. I mean you think it's a good analogy if companies miss their earnings estimates of stocks and in many instances get hurt by it because people don't know how to react to what's going to happen and there's an element of distrust in the numbers you're given. If we just look at January 2009 forecast which we were given -- well, I think it was put together in December -- net sales is down fifteen percent right now so we started 2009 behind the eight ball on the budget. During 2008 the debtors provided to us four forecasts, each with

consecutive lower level of EBITDA. The first version was the annual budget for 2008. EBITDA was projected to be $17.2 million. That was subsequently revised in May -- which, I think, this is the July budget that a lot of people worked from of $12.9 million. We received another version in September, it was revised down to $11.1 million. We received a fourth version in November that was revised down to $9.7 million and I think the debtor ended up with EBITDA at around $8.7 million.

THE COURT: Where do you get that $8.7 million from?

THE WITNESS: It's in their papers. That's non-pro forma, the $8.7 million. So if you add back pro formas you get to rethink the number -- a low number to have been working with [sic].

THE COURT: I asked the witness -- do you have the debtor's exhibits? Exhibit 3? It had actuals for ten months and forecasts for November and December and it showed EBITDA of $9,641,000.00 for the year?

THE WITNESS: Right. We've actually plugged in actual November and December.

THE COURT: You have. So you're saying it actually brings it down to another million dollars?

THE WITNESS: Yes. That's my understanding.

THE COURT: When did you get the actual for November and December?

THE WITNESS: We got December about two weeks ago and

November we received three weeks ago or so and I know that I believe that number to be true because I think in our report we have EBITDA of 93 to 94 and we did like 600,000 of pro forma, so yes, the 87 is before pro forma adjustments.

BY MR. TISHLER:

Q. At 8.7, Mr. Vomero, it's about a fifty percent inaccuracy. Is that correct from where they started in January? They started in January?

A. Yes, that's right. That's correct.

Q. What is the value to creditors to an EBITDA analysis as opposed to just a cash analysis?

A. An EBITDA analysis is a measure of the operating cash flow of the business. It's what is the business before you take into account changes in working capital which are receivables or your payables, any payments for capital expenditures, any payments for principal and interest or financing. So it's a kind of standard run rate cash that's a fairly significant measurement in most industries.

Q. Was there anything else on this slide that you wanted to go over?

A. Yes, I wanted to -- I think what we did is we looked in aggregate since May 2006 when Cap Source got into the credit, since that point the EBITDA variance is 35 percent. The last six months the EBITDA variance was 55 percent and this was based on the measure to the July forecast and the cumulative

variance is $14.9 million if were to look back since May.

THE COURT: Tell me, that cumulative variance is over what period?

THE WITNESS: May 2006 through December 31st.

THE COURT: All right.

THE WITNESS: We would change the -- we had three different forecasts in that analysis that we used and we would change.

MR. TISHLER: Your Honor, I think I can now back up that 8.7 number if you will indulge me.

BY MR. TISHLER:

Q. Can you see that, Mr. Vomero?

A. I can't see the descriptions but I can see the figures.

[Pause in proceedings.]

BY MR. TISHLER:

Q. Mr. Vomero, are you familiar with what this document is?

A. Yes.

Q. You want to tell the Court?

A. It's a summary of the year-to-date financial results through December 31st.

Q. And who is this provided to you by?

A. Lexington management.

Q. If you walk through -- they ended up with a total actual EBITDA of their rubbers, metals and corporate of 3.548. Do you see that?

A. Correct.
Q. Then if you add back to that the 4.679 in Footnote No. 2?
A. Correct.
Q. And the $508,000.00 in reorganization expenses?
A. Correct. That gets you to 8.7. Yes.

THE COURT: When did Lexington provide you with what's been shown on the screen?

THE WITNESS: Two or three weeks -- within a two to four week period.

THE COURT: Mr. Tishler, do you have a copy we can mark as an exhibit?

MR. TISHLER: It's confidential and I'll have to ask the debtors if they'd like to have it submitted as an exhibit.

THE COURT: I want an explanation for why the numbers that have been given to Cap Source are different than the numbers you put in evidence.

MR. STROCHAK: We're happy to offer that explanation, Your Honor, if you're looking to me to provide it.

THE COURT: Well, you put on testimony about what the EBITDA -- you put in evidence -- Exhibit 3 -- that showed EBITDA for the year with the last two months projected at 9.641 million. I had a lot of questions about it and now I'm suddenly hearing that you've given them a document that shows it was only 8.7 million. That doesn't make me happy.

MR. STROCHAK: Well, the explanation is, I believe,

in our Exhibit 13 which we put in evidence.

THE COURT: All right. You can deal with it on cross-examination. Go ahead, Mr. Tishler.

MR. TISHLER: Your Honor, I'm going to go ahead and mark and if the Court will indulge because it is marked "confidential" I did want to respect the confidentiality of it that we could file it under seal but it does have the date it was issued which was your question. That was the reason I was going to mark this document.

THE COURT: What's the date it was issued?

MR. TISHLER: February 4, 2009.

THE COURT: Well, at a break I'll see whether you can work out the issue of confidentiality with Mr. Strochak.

MR. TISHLER: Okay.

THE COURT: I wouldn't ordinarily don't -- the standard for sealing is under Section 107 of the Bankruptcy Code and I'm pretty strict about what gets sealed and what's public.

MR. TISHLER: Okay.

BY MR. TISHLER:

Q. Mr. Vomero, is there anything else on that page that you wanted to highlight for us?

A. No, that's it. On Page 3, again, over the past 32 months, that figure as to 97 percent of the time there's been over optimism and that's based on 31 out of 32 months and that

excludes restructuring related charges pre-petition. If you were to add that it would be 100 percent.

Some of the observations -- the way I've always looked at this business especially in a distress situation, what's really important is the year over change/your change in the business and what's that trend? What's the current trend on the year over year basis and what type of statistics can you apply to that variance and what's the average variance and what are some of the deviations and is that going to be representative of what's going to happen going forward. I haven't seen that resident in the information I've received.

Another tool that should be used, I think, going forward is one of the things we do is we'll track the budget to actual variance and try to triangulate to kind of the first analysis to try to figure out what's going to happen with this business and I haven't seen any evidence of that.

I think one of the other problems with the budgets over time is the company has -- and during this period there's one business and there's added business but there's been in the projections business that they don't have contracts for, they're likely to get and the probability weighing of that versus lost business. I think that process could be improved and, again, I'm not trying to criticize management, I'm just offering some of my observations over the years.

Q. So just to sort of put a finer point on it are you saying

that sometimes they don't necessarily fully appreciate the risks attendant with the loss of a contract, for instance, or something like that --

A. Or the success of acquiring one.

Q. When they do their projections?

A. Correct.

Q. Go on to the next slide, Mr. Vomero, and describe to the Court what that says.

A. Well, we looked back eight years through public filing information as provided by Capital I.Q. which is the data source for it and only once had they had a positive EBITDA year over year growth and that was between 2000 and 2001 and it was one percent growth. Other than that the year over year change in EBITDA has been negative and one of the issues we have is given the inaccuracy of the forecast we have to turn to what's happened historically and place significantly more weight on that as we look forward.

Q. Let's move on now to the more recent time period. Your next slide gets to that. Could you talk about the deterioration of the business, the most recent months?

A. Given the economic conditions -- and it was pretty clear that in automotive in the third and fourth quarter it collapsed and right now we're in a collapsing situation, there's just no doubt about it and nobody could have forecasted what has happened over the last four or five months, but in our view at

least over the next six to twelve months I think we need to rely on what's going on in the business today, right now, and we looked at revenue and I'll start on the quarterly results; Q407 and Q408, we did a comparison on revenue and if you look at it just in the fourth quarter all the business units were down and the total variance in the fourth quarter was 27 percent. There's a 27 percent decline in revenue year over year. I mean this isn't budget this is just year over year, here's what's happened. We had January budget -- and then we did the same results for January. Management had given us sales figures and with the exception of medical which was up eight percent, all of the business units were down including insulators, which is down 20 percent.

THE COURT: So this is a year over year comparison?

THE WITNESS: Yes, it's just year over year. Yes. The total variance is a negative 35 percent on a year over year basis and then the total four month variance is 29 percent and the fourth quarter has resonated through the EBITDA performance which is down 34 percent including the insulator group which during the fourth quarter was down 25 percent on a year over year basis.

What we're facing right now is if you looked at the January -- the big three right now have record inventories, they haven't seen these levels in years and that suggests that demand over the next few months is going to be very soft. In

addition, according to Global Insight, which is a very reputable forecasting firm, we're looking at GDP going from positive growth in 2008 to negative growth in 2009 for the first half of the year and I think even last week the Federal Reserve reduced their forecast for the GDP.

So this is the environment we're in and this is what we're doing today.

BY MR. TISHLER:

Q. Is there a seasonal or other unusual reason that could explain the sharp decline over the last four months in this business?

A. We've done year over year changes and we did add the insurance proceeds back -- management's estimate for the medical fire -- so whether or not that's a good number but that's what we did.

Q. Can connector seals' consolidation alone reverse this trend?

A. No, I don't believe it can and the reason for it is if you looked at December connector seals sales it was only $272,000.00. There's just not going to be enough EBITDA generated from that volume over the next six months or even beyond six months -- the visibility is very murky.

THE COURT: What about the reduction in overhead from closing the Vienna plant?

THE WITNESS: Well, if you looked at 2007 --

THE COURT: Because they estimated $300,000.00 a month in the reduction in overhead.

THE WITNESS: Part of that is they're moving the LSR group out of Vienna back to North Canton. If you looked at 2007, in 2007 they had a negative -- when they ran it there it was negative EBITDA at 600,000 so I think the real issue we're facing now is substantial volume declines right now and that's the way I viewed it.

I think with connector seals the other issue is as volume declines, the bank requirement declines which decreases the amount of cash that they're going to get from the inventory build and even after that when the consolidation is finished they're going to have to ramp up inventory so there's going to be a need for cash in that requirement. Having said that I think it's a good project and it should be done and it's going to help but it's not going to bridge the gap.

BY MR. TISHLER:

Q. The variance revenue drivers of this company, what historically have been the two largest revenue producers of their divisions?

A. It's been the OE automotive that's been the biggest and the after market automotive is No. 2 historically.

Q. That is the connector seals and insulators?

A. Correct.

Q. Is that how they're identified on here?

A. Yes.
Q. So the connector seals business is declining but you've also got on here that insulators is also declining, I believe, isn't it?
A. Well, it's the Jasper facility because they've commingled OE and after market. The facility produces both and so what's happening is the decline in OE is in essence cannibalizing after market on an EBITDA basis at least over the last few months.
Q. It had a decline of 24 percent, I believe?
A. That's correct.
Q. That would be year over year?
A. Correct.
Q. What is the business reason -- we've talked about some of them but why don't you go ahead and say as many as you can think of -- what are the business reasons behind the consolidation of the connector seals business?
A. I mean the business is evaporating. I mean it did $300,000.00 of revenue in January. They've got to do something and I think it is the right thing to do and I want to see it succeed. I think everybody does. I think the issue with the connector seals is there's so much uncertainty in terms of the economic benefits of that consolidation because you've got revenue changing and you've got customer commitments changing, you have execution risk involved the transition and these are

not easy things to do. Yes, I think management can get it done but when we look at the benefits they're very difficult to project. They're very difficult.

Q. Do you have an opinion as to whether they can get it done on this suddenly shortened time frame? Get it done by the end of May?

A. I haven't studied it, I think, deeply enough to see if they can get it done by the end of May but it would be quite an accomplishment if in fact they could do that.

Q. What's the last four month's trends in sales for this company?

A. The last four, it's down 29 percent on a year over year basis.

THE COURT: What's the four months that we're talking about? Is it December, January, February, March?

THE WITNESS: It would be from January.

THE COURT: January?

THE WITNESS: Yes.

BY MR. TISHLER:

Q. If you would go on to the next slide, Mr. Vomero. There's also, I believe, you were testifying that there's been a decline in enterprise value?

A. That's correct. Since the filing date we've seen a decline in TEV from at least through December 31st of 25 percent and then an additional five percent through February

10th of bar measurement points.

Q. TEV is total enterprise value?

A. That's correct. What we've seen is both a decline in peer group multiples as well as the trailing twelve month EBITDA so we've seen a decline in both of those items.

THE COURT: How do you select your peer group versus how W.Y. Campbell selected its peer group?

THE WITNESS: Well, if you go back they did transactions that were dated. If you go back to their August 14th or mid-August report -- all of our comps are on their comp list but the difference is we scaled out super large companies like Bridgestone which are just not comparable. There were a few other -- if I had in front of me I think Vistion was on there as well. It's just not a good comp. Then, also, we scaled back from size because in valuation there are size premiums so the smaller a company the riskier it is and there's been a fair amount of research and it's a highly recognized concept.

THE COURT: Did you ever meet with anyone from W.Y. Campbell and discuss comparables and peer groups?

THE WITNESS: No. Our discussions have been mostly about the sale process. But our logic was let's get the peer group -- let's narrow in sizes, No. 1. No. 2 is geography matters when you're comparing companies because international markets are different and in some instances are growing faster

than domestic. So Lexington's business is a domestic business so we scaled and looked at the international diversity and tried to get companies that were primarily North American -- and when I say "domestic" I mean north America. The next criteria we did is there are kind of two different types of companies, there are companies who develop products and have patents for products, branded products, research and development their product companies and some of them may manufacture or some of them may outsource the manufacturing. Lexington doesn't develop products, they do it with their customers but the customers own the rights to those products so we wanted to get contract-type manufacturers that are similar that compete on having really good process technology like Lexington. The only exception to that is in the after market where they actually will make like knock-off molds; they actually own the product but they will replicate a product or develop something to make a product that goes on to an existing vehicle.

THE COURT: Thank you.

THE WITNESS: So that was our criteria and when we looked at the peer group, the peer group was larger. The peer group -- four of the six paid dividends, Lex doesn't. Then the peer group is generally less levered than Lex' even when you eliminate the subordinated debt or what's subordinated to Capital Source. So you could arguably justify a discount on

that basis but on a quantitative basis we just wanted to stick with the current market data as best we could.

THE COURT: You only have one comparable for medical supplies?

THE WITNESS: Yes. The reason for that is there are a couple of companies that were reasonably similar but they're product-based companies; they actually have patent protection, they're branded products and even Wess -- but if you look at Wess, Wess is actually much stronger, it's the market leader. So, arguably, it's trending at a higher multiple than Lex was but, yes, I only had one.

BY MR. TISHLER:

Q. Why is there a diminution in the total enterprise value?

A. It's based on the decline in the market and market multiples and then also the debtor's EBITDA performance.

Q. So what has the decline been from March of last year to roughly this time frame based on your report?

A. What has declined?

Q. What is the diminution of the total enterprise value? What was the amount on March 2008?

A. $90.2 million.

Q. Where is it today?

A. Well, February 10th, it's at $63.4 million. So that's a thirty percent diminution in value.

Q. What's the effect of a lower total enterprise value on a

cash burn?
A. We had to make the assumption when we did this that the debtor would have sufficient cash flow to realize the value. If we get to a point during this process where there isn't enough cash flow or it's unreasonably low, then you may not recognize or realize that value but we had to make the assumption that they were going to have cash flow and if it gets unreasonably low you would convert your analysis to an asset-based approach, more likely, because you have to run through an expedited process.
Q. So in other words if they run out of money the process turns into kind of a fire sale approach to selling assets?
A. It would be expedited. It would be an expedited sale. At least now as we sit here we have the luxury of some cash and some time. We don't know what we're going to have in three months or six months.
Q. Have you done a liquidation analysis of this business in connection with your report?
A. No, not of the whole company. No.
Q. Is it fair to say, though, a liquidation value would be less than a total enterprise value?
A. Yes.
THE COURT: Have you had any discussions with anyone from the company about what the minimum cash required is to operate the business?

THE WITNESS: No, I have not. What makes it a challenge is the amount of the professional fees. They've been so difficult. So from an operational perspective, I think that the company can provide some pretty good numbers but when you throw in the costs of all this I think it becomes a real challenge to see what's going to happen to cash over the next three to six months.

THE COURT: Maybe if everybody would come together and come to an agreement we wouldn't have had so many contested --

THE WITNESS: I mean that's just my view. I'm sure Dennis has a different view. That's the way I would characterize it.

THE COURT: Is it fair to say that you think Mr. Welhouse has done a good job in terms of estimating the cash flow in the business?

THE WITNESS: Yes, the thirteen week cash flow. Yes, I think Dennis has done a fine job with that.

BY MR. TISHLER:

Q. Mr. Vomero, what are the reasons for the enterprise decline in your report?

A. The decline in?

Q. Enterprise value.

A. The decline in the enterprise is the decline in the market multiples and a decline in the debtor's financial performance

as measured by EBITDA.

Q. What do the next three to six months look like for Tier 2 and 3 suppliers like Lexington?

A. It's going to be a real challenge. I mean we're facing declining GDP or at least the last report I had which is a couple of weeks old. You've got the big three with record inventories suggesting very slow production over the next few months so it's going to be a real challenge.

Q. What about for the medical device business?

A. It ended January with good, solid sales. I think it's got a good book. It's got good prospects.

Q. Why do you think would be a good time to explore a sale of the medical device business?

A. Because I think everybody suffers if we start the process and it's too late and I think you've seen such a marked decline on a year over year basis in the business that it doesn't seem to me that it's worth the risk right now because if we wake up one day -- again, it's very difficult to predict what's going to happen over the next three months given the declines that we've seen, we don't want to wake up and find out that we're dangerously low on cash and we're not going to have enough time to run a sale process.

Q. Is it your sense -- you haven't tested the market for buyers for medical devices or anything like that, have you?

A. No, I have not.

Q. But is it your sense that the medical business -- there may be more buyers out there than auto supplier buyers?
A. Yes. I mean one of the things we did is we looked at transactions over the past -- since the fourth quarter through mid-February. In aggregate we found that there were 74 transactions and those are both automotive and medical. I think it was roughly an equal split in terms of the numbers but there were a lot of transactions that were being done out there but I think it would be easier to realize value for medical than the errant piece [sic].
Q. This company dramatically reduced its secured debt. Do you believe it could more easily obtain exit financing?
A. Yes. I mean [inaudible] the balance sheet would be a very good thing.
Q. What was the impact on the business -- I believe you were assisting Capital Source at the time they went out to market with medical device before back in 2007, is that right, the end of 2007?
A. Well, the process started is my recollection -- and I might be off on dates here -- is late spring/early summer of 2007 is when it began. It was part of a forbearance that had milestones to march down a sale process.
Q. In connection with that process what harm came to the debtor's medical device business that you're aware of?
A. I'm not aware of any.

Q. What do you think would be worse to customers and vendors of this medical device company? Exploring a sale or just an indefinite stay in bankruptcy?
A. In exploring the sales. In my view exploring a sale is a better option compared to if we do have to run a fire sale. I think it puts the customers in more jeopardy. It may not be the most perfect alternative we have available but given what's a possible outcome.
Q. Mr. Vomero, would you turn to Page 17 of your expert report? I don't want you to read this because the Judge has already read it, but I just want you to testify as to some of the risks associated with the consolidation of the connector seals business that you see?
A. When we did this we were given the -- I don't want to get into all of the different forecasts -- but what we looked at is the economic benefits associated with the connector seals consolidation and these are risky. They're very difficult to predict in terms of timing, in terms of quantities, in terms of customer consent. One of the things that heightened our risk level was we were notified of this in early December. It's three months later, we don't have any contracts and it would be great to gather them. We want to gather them and get going but until we do we have a level of uncertainty that makes it difficult to project what's going to happen.
Q. I believe those contracts require customers to commit to a

long period of time to buy from --

A. Well, that's what the proposal is right now. I don't think we have any final, signed contracts.

Q. What would be next? Anything?

A. I mean we went through -- there's risks in resourcing, there's risks in pricing as well, a number of the variables can change.

Q. What was the initial cost savings projected by doing the connector seals consolidation?

A. Well, the initial liquidity over the next six months was -- I think it was a $2 million to $3 million pick up. The cash went from like $5.5 million to almost eightish, roughly. I can't remember the exact number but in that order of magnitude.

Q. Did they initially project a higher number than they are now projecting?

A. That's correct.

Q. Do you remember what those numbers are?

A. Well, I think $2 million is what the current projection is but that's from the thirteen week forecast. So it's changed fairly dramatically.

Q. What's been the historical value of the machining business?

A. Well, if you look back four years on machining it's had over the last four years negative EBITDA on all years except for one which was 2007. I think it did a half million EBITDA

at that point. From time to time I've done liquidation analysis on machining when we've had KER [sic] appraisals. Those analyses were between $6 million to $7 million so even if that business turned $1 million of EBITDA, I think the OE automotive business is trading now at 3 and you're looking at $3 million versus $6 million to $7 million potentially available so there's enough data there to suggest that it's better being liquidated because it's not earning it's cost of capital and it certainly hasn't over the last four years.

Q. Mr. Lubin testified that there's been a real upsurge, I think, in potential customers for that business. Were you aware of that?

A. Yes, I was aware of that. Yes, again, this business has one customer. It's machining as one business historically but there's always been a compensating factor whether it's demand, whether it's lost customers, changing quantities, etc. So when you look at Lexington I've always viewed it as a portfolio; you're going to gain customers, you're going to gain wins but there's also downside risks and that's what at least I've observed over the last couple of years.

Q. Is the machine business especially susceptible to the OEM business?

A. Yes, there's a high concentration in OE automotive.

Q. What's your opinion as to how this case should proceed from this point?

A. I think we need to explore all options at this point. I think to manage the risk of this case it's in everybody's best interest to add a level of security in the event things deteriorate further.

Q. What would you recommend then?

A. I would recommend we explore a sale process or get ourselves in a position to do that in some form. There's a lot of effort to put together in OE and get things going but that's my view right now.

MR. TISHLER: Your Honor, I'd like to move the admission of Mr. Vomer's expert report into evidence and I'd also like to move the slides into evidence as summaries of his expert report.

MR. STROCHAK: No objection, Judge.

(PSL Exhibits A and F, Received.)

THE COURT: All right. PSL-A which is the expert report is admitted into evidence and the slides which have been marked today as PSL-F are in evidence.

MR. TISHLER: That's all I have for now, Your Honor.

THE COURT: Let's see if Mr. Bracht wants to cross-examine before you do, Mr. Strochak.

MR. BRACHT: Your Honor, I think I want to hear what Mr. Strochak has to say. I don't have anything.

THE COURT: Go ahead, Mr. Strochak. You can get started at least this afternoon.

MR. STROCHAK: Thank you, Your Honor.

CROSS EXAMINATION

BY MR. STROCHAK:

Q. Mr. Vomero, let's start if we could with debtor's Exhibit 3 which you should have a binder up there with the debtor's exhibits in them. If you could turn to Tab 3?

A. Okay.

Q. Now, the first page of debtor's Exhibit 3 is the consolidated summary of the results for 2008 through October -- actual results -- and then projected results for November and December; correct?

A. Correct.

Q. And we were looking at the EBITDA figure in the forecast year column of $9.6 million; correct?

A. Correct.

Q. I think you indicated that you had some subsequent information that indicated lower EBITDA results for 2008. Is that correct?

A. Yes. We were just doing a comparison to these two documents. Right.

Q. You came up with a number around 8.7? Is that correct?

A. That's correct.

Q. So what accounts in your mind for the delta between the 9.6 in the projected results for 2008 and the 8.7 that you're working off of?

A. I didn't to a reconciliation. We started with this and we plugged in the actual numbers when they became available so I didn't do a reconciliation.

Q. Did you look at all at any of the adjustments that had been made to any of the numbers, particularly the 9.6 on Exhibit 3?

A. No, we just used the actuals.

Q. When you say you "just used the actuals," you didn't try and reconcile the 8.7 that you were using as an actual to the 9.6?

A. No, I didn't recognize this spread sheet to what we used.

Q. What you used is unadjusted with no adjustments at all?

A. Well, no, we made adjustments.

Q. So your 8.7 was adjusted?

A. No, we used --

THE COURT: It was off the sheet that your client gave you.

THE WITNESS: Yes, we added .6 of pro forma adjustments to ours to come up with like 9.4 or something like that.

BY MR. STROCHAK:

Q. But you didn't reconcile the 8.7 that you read with the 9.6 in the earlier data?

A. No, I didn't. I may have or one of my principals may have done it but I didn't, I thought we were pretty comparable and

we were able to tie out to what was filed in the papers and the order of magnitude, I think, we were in the ball park.
Q. Turn with me if you could to debtor's Exhibit 13?
A. Yes.
Q. Looking at the 2008 actual column -- again, these are preliminary results, not audited, but actual results for 2008. The total at the bottom for the EBITDA number is $9.58 million or roughly $9.6 million; correct?
A. Correct.
Q. That as indicated in the footnote has been adjusted for $488,000.00 in consulting fees; correct?
A. Correct.
Q. And $190,000.00 impact from the fire; right?
A. Correct.
Q. So when we back out those adjustments my math shows roughly $8.9 million of actual EBITDA for 2008; correct?
A. Yes, that would be correct. So we probably got different versions -- there's probably version issues between what we received and what this shows.
Q. In other words, it more or less squares with the 8.7?
A. Yes, I think we're in the ball park. I mean it's not an issue for me which is pretty common.
Q. Turn with me if you would to the summary slides that you prepared, Exhibit F in evidence?
A. Yes.

Q. The chart -- the historical and projected cash on hand chart in the middle of the page begins on June 30, 2008. What did you being it on June 30, 2008, the high point for the cash and not the beginning of the Chapter 11 cases in April when cash was significantly lower?

A. Because we had seen a dramatic downturn in the business in the second half of the year. If you look at the year over year changes, the first half versus the second half, it's been incredibly dramatic. So that was our starting point. I think a probably better comparison to be with good history is what's happened since 12/31 moving forward is a better comparison.

THE COURT: 12/31?

THE WITNESS: Of 2008 to where we are today is probably the right comparison.

BY MR. STROCHAK:

Q. You've indicated that going back to the high point of the debtor's cash after the DIP loans were in and reflecting as Mr. Welhouse testified, the deferral of certain reorganizational expenses, you've indicated that the cash burn is roughly $600,000.00 a month. Is that right?

A. From June 30th?

Q. Yes.

A. Yes, that's what would be indicated in that report but, again, I think the better measure is what was cash at that point before the deferral. I'm sorry, I think the better

measure is what was cash at 12/31 compared to where we are at today so the effects of the deferral aren't included in the numbers.

THE COURT: So you want to compare the $5.5 million to --

THE WITNESS: $4.0 million so that washes out.

BY MR. STROCHAK:

Q. So that's roughly $1.5 million in roughly a month and a half?

A. I think that's correct.

Q. Now, isn't it correct, sir, that December and January were really perfectly awful months in the OEM sector; correct?

A. Yes.

Q. So a substantial portion of the debtor's revenues took a tremendous hit due to what was going on in the OEM sector. Is that right?

A. That's correct but we had seen this deterioration as well -- there was deterioration in the third quarter relative to what's happened as well. So it's been an erosion with a significant drop in the fourth quarter is the way I would characterize it.

Q. Let me turn if I could to the valuation exercise that you did and if you look at your report on Page 42?

A. Yes.

MR. STROCHAK: For the record, that's Exhibit A in

evidence.

BY MR. STROCHAK:

Q. With respect to your OEM comparable companies you've only identified three, is that the only three companies that you could find that were in your view somewhat comparable in some way to the debtors?

A. Yes, based on the criteria we discussed, that's what I feel is comparable.

Q. With respect to medical you've only identified one, I believe, as the Court pointed out. Is that right?

A. That's correct.

Q. Again, you found no other companies in the marketplace that were comparable in any way to the debtors for inclusion in this analysis?

A. Not in my view.

Q. Is it typical in performing a valuation to rely on a single comparable for a publicly traded comparables analysis?

A. I've done it before, yes.

THE COURT: That wasn't the question.

BY MR. STROCHAK:

Q. The question was is it typical to do so?

A. It's not uncommon but the majority of cases would use multiple comps.

Q. Is there something particularly unique about the medical history that suggests justification for reliance on only a

single comparable company?
A. I was only able to find one contract manufacturer in medical that was public. The other ones that we had seen were private so that was the basis.
Q. In the automotive after market you've only used two comparables. Again, you were not able to identify any other companies in the automobile after market parts business that were comparable to the debtors?
A. Most were significantly larger or had significant international operations so we're in completely different markets and competitive positions.
Q. What's going on in the international markets that's dramatically different than what's going on in North America?
A. In what segment?
Q. In automobiles?
A. In automobiles? China has had significant growth. In fact, China -- I think in January there were more sales of autos in China than there were here so the market there is growing tremendously, has better growth prospects. India, the same. Europe, in the OE business I can't comment, I haven't spent much focus there on Europe but anyway having international presence in China in particular is promising. It's definitely promising. There's no doubt about it.
Q. Which after market companies did you consider and then eliminate because you found they had international exposure?

A. Oh, that's right, you were talking about OE. On the international side you mentioned, though -- my response was to OE automotive, not after market. Sorry for the confusion.

Q. Let's go on the same page. Let's talk about after market and with respect to after market you only identified two comparables to the debtors. Why were you able to locate only two comparables in automotive after market?

A. A lot of the comps we looked at -- we have this documented and I don't have it with me but a number of them were larger or they were distributors or, again, failed the criteria of the screen that we established here. So I've looked at some and those were the general characteristics for exclusion. I can't recall the specifics at this time but I could give it to you in a couple of days.

THE COURT: All right. We're going to pick up with the cross-examination in the morning.

Let me ask how many more witnesses are we going to have tomorrow? Mr. Strochak, you've already -- I don't know whether you're going to have any rebuttal witnesses?

MR. STROCHAK: We may have rebuttal. I was just going to mention that, Your Honor.

THE COURT: Mr. Tishler?

MR. TISHLER: Mr. Vomero is my only witness.

MR. BRACHT: We're planning on calling two or we were planning on calling two and I think we probably still will but

I think I'll probably, hopefully, bring it down some. I don't think it's going to take that long. They're not long examinations.

THE COURT: Just so you all know, tomorrow we can only go from -- we're going to start at 9:00 again and we have stop by 12:15 because I'm on a panel all afternoon and so plan accordingly.

So we'll start at 9:00. See you all in the morning.

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I certify that the foregoing is a court transcript from an electronic sound recording of the proceedings in the above-entitled matter.

Ruth Ann Hager

____

Ruth Ann Hager

Dated: February 26, 2009